

2011 Level I Mock Exam: Afternoon Session

The afternoon session of the 2011 Level I Chartered Financial Analyst (CFA®) Mock Examination has 120 questions. To best simulate the exam day experience, candidates are advised to allocate an average of 1.5 minutes per question for a total of 180 minutes (3 hours) for this session of the exam.

Questions	Topic	Minutes
1-18	Ethical and Professional Standards	27
19-32	Quantitative Methods	21
33-44	Economics	18
45-68	Financial Statement Analysis	36
69-78	Corporate Finance	15
79-90	Equity Investments	18
91-96	Derivative Investments	9
97-108	Fixed Income Investments	18
109-114	Alternative Investments	9
115-120	Portfolio Management	9
Total:		180

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

Questions 1 through 18 relate to Ethical and Professional Standards.

1. Tibor Figeczky, CFA, is an equity trader at Global Investment Bank (GB). Figeczky traded the bank's investment portfolio profitably for the past three years and earned significant bonuses for his efforts. Subsequently, internal auditors of GB formally accused Figeczky of exceeding his trading authority and engaging in unauthorized trades. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, Figeczky should *most likely*:
 - A. disclose the complaint to the CFA Institute.
 - B. refuse further bonuses until the issue is resolved.
 - C. request a temporary suspension of his CFA Institute membership.

2. Alexandra Zagoreos, CFA, is the head of a government pension plan. Whenever Zagoreos hires a money management firm to work with the pension plan, she finalizes the deal over dinner at a nice restaurant. At these meals, Zagoreos also arranges for the money manager to provide her payments equal to 10% of the management fee the manager receives from the pension plan. Zagoreos keeps half of the payments for her own use and distributes the remainder as cash incentives to a handful of her most trusted staff. Zagoreos *least likely* violated which of the following CFA Institute Code of Ethics and Standards of Professional Conduct?
 - A. Referral fees.
 - B. Loyalty, Prudence and Care.
 - C. Additional Compensation Arrangements.

3. Christy Pasley, CFA, is the Chief Investment Officer for Risen Investment Funds (RIF) a mutual fund organization. At a meeting between Homeland Builders (HB), a publicly traded company, Pasley learns HB sales are much slower than expected. In fact, HB sales declined more than 20% in the last quarter, but this information has not yet been widely disseminated. Immediately after meeting with HB, Pasley purchases put options on HB stock. Subsequently, HB issues a press release with their most recent sales figures. Has Pasley *most likely* violated the CFA Institute Standards of Professional Conduct?
 - A. Yes.
 - B. No, because the securities purchased were options.
 - C. No, because the information was obtained directly from the company.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

4. Florence Zuelekha, CFA, is an equity portfolio manager at Grid Equity Management (GEM), a firm specializing in commodities. Zuelekha, who previously focused on alternative energy, recently attends her first commodity conference, sponsored in large part by GEM. Independent industry experts, argued commodities would increase in value and recommended investors hold at least 10% of their portfolio assets in commodities based on consistent increases in their values over the previous two years. Without doing any additional research, Zuelekha recommends to all her clients an immediate allocation of 5% of their portfolio into commodities. Over the next few weeks, Zuelekha moves her own portfolio to a 10% commodity allocation. Which of the CFA Standards did Zuelekha *most likely* violate?
- A. Priority of Transactions.
 - B. Independence and Objectivity.
 - C. Diligence and a Reasonable Basis.
5. Joan Tasha, CFA, a supervisor at Olympia Advisors (OA), wrote and implemented compliance policies at her firm. A long time OA employee, Derek Longtree, recently changed the asset allocation of a client, which is inconsistent with her financial needs and objectives and with OA's policies. Until now Longtree has never violated OA's policies. Tasha discusses the issue with Longtree but takes no further action. Do Tasha's actions concerning Longtree most likely violate any CFA Institute Standards of Professional Conduct?
- A. No.
 - B. Yes, because she failed to detect Longtree's actions.
 - C. Yes, because she did not take steps to ensure that the violation will not be repeated.
6. Wang Dazong, CFA, is a sole proprietor investment advisor. Dazong believes in putting his money at risk along with his clients and trades the same securities as his clients. In order to ensure fair treatment of all accounts, he rotates trade allocations so that each account has an equal likelihood of receiving a fill on their orders. This allocation procedure also applies to Dazong's own account. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, the allocation procedure used by Dazong:
- A. complies with the Standards.
 - B. requires revision to ensure client trades take precedence.
 - C. should be disclosed and written approval received from clients.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

7. Tammi Holmberg is enrolled to take the Level I CFA examination. While taking the CFA examination, the candidate on Holmberg's immediate right takes a stretch break and a piece of paper from his pocket falls onto Holmberg's desk. Holmberg glances at the paper and realizes there is information written on the paper, which includes a formula Holmberg needs for the question she is working on. Holmberg had not memorized this formula and could not complete the question without this information. Holmberg pushes the paper off her desk and uses the formula to complete the question. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, Holmberg *most likely*:
- A. compromised her exam.
 - B. was free to act on the information that fell on her desk.
 - C. is responsible for notifying exam proctors of her neighbor's violation.
8. Kazuya Kato, CFA, is a widely followed economist at a global investment bank. When Kato opines on economic trends, markets react by moving stock valuations considerably. When Kato receives information of a temporary oversupply of rare earth metals, he issues a forecast that price trends for rare earth metals will be down significantly on a long-term basis. Kato also secretly sells his report to a widely followed Internet site. Prior to issuing this forecast, Kato emailed all portfolio managers at his bank with a copy of his report indicating that his opinion would be reversed shortly so there will be trading opportunities. Kato *least likely* violated which of the following CFA Institute Code of Ethics and Standards of Professional Conduct?
- A. Market Manipulation.
 - B. Priority of Transactions.
 - C. Additional Compensation Arrangements.
9. Oliver Rae, CFA, is an individual investment adviser specializing in commercial real estate. Rae recently packaged a real estate limited partnership (RELP), which he sold in a private placement to his existing advisory clients. The partnership has purchased four properties in which Rae held a 5% minority interest. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, Rae should:
- A. manage the partnership separately from his advisory business.
 - B. disclose conflicts related to the real estate he sold to the partnership.
 - C. return all profits earned from his minority interest to the limited partners.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

10. Noor Hussein, CFA, runs a financial advisory business, specializing in retirement planning and investments. One of her clients asks her to advise the firm's pension fund trustees on available investments in the market including Islamic products. On the day prior to the meeting, Hussein spends an hour familiarizing herself with Islamic investment products and getting updates on local market conditions. The next day she recommends Islamic investment products to the trustees based on her research and her expertise in retirement planning and investments. The trustees subsequently incorporate Islamic products into their investment allocation. Did Hussein's basis for the recommendation *most likely* comply with the CFA Code of Ethics?
- A. Yes.
 - B. No, with regard to Misconduct.
 - C. No, with regard to Diligence and Reasonable Basis.
11. Praful Chandarana, CFA, is starting a new business to offer investment-consulting services to pension fund trustees in response to a new regulation that requires all pension fund Investment Policy Statements (IPS) to be reviewed and approved by an independent CFA Charterholder. Prior to starting the new business, he meets with the pension fund regulator to clarify if the CFA Charterholder undertaking the IPS review should be a licensed financial advisor. A separate regulatory body grants the license to those giving investment advice to clients. The regulator states they do not require the CFA Charterholder to hold a financial advisor's license, despite financial-related advice being given to the pension funds during any IPS review. Chandarana therefore, starts his new business to undertake IPS reviews without obtaining a financial advisors license. Subsequently when clients of his former employer contact him he informs them of his new company and the services he offers. Does Chandarana *most likely* violate the CFA Code and Standards?
- A. No.
 - B. Yes, with regard to Professionalism.
 - C. Yes, with regard to Duties to Employer.
12. Mailaka Securities (MS) advertises the use of a "bottom up" investment style in its marketing material. Recently, MS senior management decided to switch to a "top down" approach, citing the fact that it is less labor intensive. All other aspects of the research process are to remain the same. The head of research at MS, Mara Cherogony, CFA, is instructed to supervise the implementation of the new procedures, notify clients of the changes, and revise the text of marketing materials when new material is produced. Which of the following CFA Standards pertaining to Investment Analysis, Recommendations and Actions is Cherogony *least likely* in danger of violating?
- A. Supervisory Responsibility.
 - B. Communication with Clients.
 - C. Diligence and Reasonable Basis.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

13. Preeta Singh, a CFA Candidate, is an asset manager employed by a fund management company managing very large segregated pension funds. In her spare time outside of working hours, Singh likes to provide management-consulting services to small companies to help grow their businesses, focusing on strategic planning. Singh is paid for the consulting services and has also provided her employer information about these outside activities. Does Singh *most likely* violate the CFA Code of Ethics with regard to Duties to Employers?
- A. No.
 - B. Yes, with regard to loyalty.
 - C. Yes, with regard to additional compensation arrangements.
14. Yip Wai Yin, a CFA Candidate, is an independent mutual fund sales agent. For every front-end load product she promotes, Yip receives a portion of the front-end fee as commission, at the time of sale. For every back-end load fund she sells, Yip receives a smaller commission paid at the end of the year. Yip always informs her clients she is paid a commission as an agent, but does not provide details of the compensation structure. When pitching her favored front-end load product line she tells clients 20% of her commission is always invested in the same fund as proof of her confidence in the fund she recommends. Which CFA Code of Standards with regard to Conflicts of Interest does Yip *least likely* violate?
- A. Referral Fees.
 - B. Disclosure of Conflicts.
 - C. Priority of Transactions.
15. David Bravoria, CFA, is an independent financial advisor for a high net worth client with whom he had not had contact in over two years. During a recent brief telephone conversation, the client states he wants to increase his risk exposure. Bravoria subsequently recommends and invests in several high-risk funds on behalf of the client. Bravoria continues, as he has done in the past, to send to his client monthly, detailed itemized investment statements. Did Bravoria *most likely* violate any CFA Standards?
- A. No.
 - B. Yes, with regard to investment statements.
 - C. Yes, with regard to purchasing venture capital funds.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

16. Sato Kashingaki, CFA, is a financial advisor who practices in multiple jurisdictions. In his resident country, Country A, he is not required by law to hold a financial advisors license but he is required to uphold a fiduciary duty to his clients. In Country B, authorities require him to hold a financial advisors license but he is not expected to uphold a fiduciary duty to his clients. In Country C, authorities require both a financial advisors license and an asset management license in addition to upholding a fiduciary responsibility towards clients. In which of the three countries does Kashangaki have the duty to adhere to the CFA Code and Standards over local laws?
- A. Country A.
 - B. Country B.
 - C. Country C.
17. Hezi Cohen, a CFA candidate, is a heavy user of social networking sites on the Internet. His favorite site only allows a limited number of characters for each entry so he has learned to abbreviate everything, including CFA trademarks. Cohen also enjoys professional networking sites and contributes regularly to blogs that discuss the broad topical areas covered within the CFA Exam Program. In addition, he posts to these blogs pieces he has written in his area of expertise: retirement planning. By claiming to be an expert on retirement planning, he believes his stature within the investment community increases and he can gain more clients. Which Internet activity can Cohen *most likely* continue to be in compliance with the CFA Standards of Professional Conduct?
- A. Use of abbreviations.
 - B. Claiming retirement planning expertise.
 - C. Blogging about broad topical areas within the CFA Exam Program.
18. Meshack Bradovic, CFA, was recently hired as a credit analyst at a credit rating agency whose major clients include publicly listed companies on the local stock exchange. One of the clients is currently preparing to issue a new bond to finance a major factory project. Analysts are speculating that without the new factory the company will not survive the onslaught of competition from increasing imports; therefore, the company is counting on an upgraded credit rating to enhance the subscription level of the issue. Bradovic's research suggests the creditworthiness of the company has severely deteriorated over the last year due to negative operating cash flows. Without conducting extensive research, Bradovic's boss puts pressure on him to upgrade the credit rating to an investment grade rating. What course of action is *most* appropriate for Bradovic to prevent any violation of the CFA Code or Standards?
- A. Quit his position with the firm.
 - B. Upgrade the rating but note his objections in writing.
 - C. Disassociate with the credit rating report, the bond issue and the client.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

Questions 19 through 32 relate to Quantitative Methods

19. Using the sample results given below, drawn as 25 paired observations from their underlying distributions, test if the mean returns of the two portfolios differ from each other at the 1% level of statistical significance. Assume the underlying distributions of returns for each portfolio are normal and that their population variances are not known.

	Portfolio 1	Portfolio 2	Difference
Mean Return	17.00	21.25	4.25
Standard Deviation	15.50	15.75	6.25
t -statistic for 24 df and at the 1% level of statistical significance = 2.807			

Based on the paired comparisons test of the two portfolios, the *most* appropriate conclusion is:

- A. reject the hypothesis that the mean difference equals zero as the computed test statistic exceeds 2.807.
 - B. accept the hypothesis that the mean difference equals zero as the computed test statistic exceeds 2.807.
 - C. accept the hypothesis that the mean difference equals zero as the computed test statistic is less than 2.807.
20. The following ten observations are a sample drawn from a normal population: 25, 20, 18, -5, 35, 21, -11, 8, 20, and 9. The fourth quintile (80th percentile) of the sample is *closest* to:
- A. 8.0.
 - B. 21.0.
 - C. 24.2.
21. When calculated for the same data and provided there is variability in the observations, the geometric mean will *most likely* be:
- A. equal to the arithmetic mean.
 - B. less than the arithmetic mean.
 - C. greater than the arithmetic mean.
22. The Central Limit Theorem is *best* described as stating that the sampling distribution of the sample mean will be approximately normal for large-size samples:
- A. if the population distribution is normal.
 - B. if the population distribution is symmetric.
 - C. for populations described by any probability distribution.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

23. If the stated annual interest rate is 9% and the frequency of compounding is daily, the effective annual rate is *closest* to:
- A. 9.00%.
 - B. 9.42%.
 - C. 9.88%.
24. All else held constant, the width of a confidence interval is *most likely* to be smaller if the sample size is:
- A. larger and the degree of confidence is lower.
 - B. larger and the degree of confidence is higher.
 - C. smaller and the degree of confidence is lower.
25. The belief that trends and patterns tend to repeat themselves and are, therefore, somewhat predictable *best* describes:
- A. technical analysis.
 - B. weak-form efficiency.
 - C. arbitrage pricing theory.
26. An investor purchases 100 shares of stock at a price of \$40 per share. The investor holds the stock for exactly one year and then sells the 100 shares at a price of \$41.50 per share. On the date of sale, the investor receives dividends totaling \$200. The holding period return on the investment is *closest* to:
- A. 3.75%.
 - B. 8.43%.
 - C. 8.75%.
27. The number of ways we can choose r objects from a total of n objects, when the order in which the r objects are listed does matter is given by the permutation formula:

$${}_nP_r = \frac{n!}{(n-r)!}$$

How many permutations are possible when choosing 4 objects from a total of 10 objects?

- A. 30.
- B. 210.
- C. 5,040.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

28. A discrete uniform distribution consists of the following twelve values:

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

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

- A. 16.67%.
 B. 18.04%.
 C. 27.59%.
29. A sample of 100 observations drawn from a normally distributed population has a sample mean of 12 and a sample standard deviation of 4. Using the extract from the z-distribution given below, find the 95% confidence interval for the population mean.

Cumulative Probabilities for a Standard Normal Distribution $P(Z \leq x) = N(x)$ for $x \geq 0$ or $P(Z \leq z) = N(z)$ for $z \geq 0$										
x or z	0	0.01	0.02	0.03	0.04	.05	.06	.07	.08	.09
1.5	0.9332	0.9345	0.9357	0.9370	0.9382	0.9394	0.9406	0.9418	0.9429	0.9441
1.6	0.9452	0.9463	0.9474	0.9484	0.9495	0.9505	0.9515	0.9525	0.9535	0.9545
1.7	0.9554	0.9564	0.9573	0.9582	0.9591	0.9599	0.9608	0.9616	0.9625	0.9633
1.8	0.9641	0.9649	0.9656	0.9664	0.9671	0.9678	0.9686	0.9693	0.9699	0.9706
1.9	0.9713	0.9719	0.9726	0.9732	0.9738	0.9744	0.9750	0.9756	0.9761	0.9767
2.0	0.9772	0.9778	0.9783	0.9788	0.9793	0.9798	0.9803	0.9808	0.9812	0.9817

The 95% confidence interval is *closest* to:

- A. 7.840 to 27.683
 B. 11.216 to 12.784
 C. 11.340 to 12.660
30. A test statistic is *best* defined as the difference between the sample statistic and the value of the population parameter under H_0 divided by the:
- A. sample standard deviation.
 B. standard error of the sample statistic.
 C. appropriate value from the t -distribution .
31. In generating an estimate of a population parameter, a larger sample size is *most* likely to improve the estimator's:
- A. efficiency.
 B. consistency.
 C. unbiasedness.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

32. Using a discount rate of 5%, compounded monthly, the present value of \$5,000 to be received three years from today is *closest* to:
- A. \$4,250.
 - B. \$4,305.
 - C. \$4,320.

Questions 33 through 44 relate to Economics

33. If the quantity demanded of pears falls by 4% when the price of apples decreases by 3%, then apples and pears are *best* described as:
- A. substitutes.
 - B. complements.
 - C. inferior goods.
34. Assume that at current production and consumption levels, a product exhibits price elasticity of demand equal to 1.20 and elasticity of supply equal to 1.45. The true economic consequences of taxes imposed on the seller of such a product are *most likely* borne:
- A. by the seller.
 - B. by the buyer.
 - C. partly by the buyer and partly by the seller.
35. Assume that a monopoly is charging a price higher than the price that would exist in pure competition. If the monopoly decides to increase the price even more, the deadweight loss to society will *most likely*:
- A. increase.
 - B. decrease.
 - C. remain the same.
36. Assume the U.S. Federal Reserve system (the Fed) has decided to lower interest rates in the economy. To carry out this policy, the Fed will *most likely*:
- A. sell securities.
 - B. buy securities.
 - C. increase required reserve ratios.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

37. Government policies to stimulate an economy suffering a recession and designed to reduce unemployment in the short run are *most likely* directed towards reducing which type of unemployment?
- A. Cyclical
 - B. Frictional
 - C. Structural
38. Which of the following statements concerning market structure and Herfindahl-Hirschman Index (HHI) is *most* accurate?
- A. HHI is a useful measure of potential barriers to entry.
 - B. Low control over prices is characteristic of oligopolies.
 - C. An HHI value of 60 indicates that a market is highly competitive.
39. The primary monetary policy goal of most major central banks is *best* characterized as:
- A. containing inflation.
 - B. stimulating economic growth.
 - C. maintaining low interest rates.
40. Externalities, in reference to a particular good, are *most likely* to impact:
- A. sellers.
 - B. buyers.
 - C. someone other than buyers and sellers.
41. Generational accounting indicates the United States, as well as other developed nations, faces severe generational imbalances regarding government programs such as Social Security. Which of the following is *most likely* a possible outcome?
- A. Reduction in income taxes.
 - B. Increase in government discretionary spending.
 - C. Creation of new money to pay government obligations.
42. The consumer price index (CPI) this year is 252. The CPI last year was 246. The inflation rate this year is *closest* to:
- A. 2.38%.
 - B. 2.44%.
 - C. 6.00%.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

43. Land is *best* characterized as:
- A. having perfectly inelastic supply.
 - B. being a nonrenewable natural resource.
 - C. being priced according to the Hotelling principle.
44. Which of the following is *least likely* to be a valid function/characteristic of money? Money:
- A. acts as a unit of account.
 - B. provides a means of payment.
 - C. requires a double coincidence of wants.

Questions 45 through 68 relate to Financial Statement Analysis

45. At the start of a month, a retailer paid \$5,000 in cash for different types of candies. He sold candies costing \$2,000 for \$3,000 during the month. The *most likely* effect of these transactions on the retailer's accounting equation for the month is that assets will:
- A. be unchanged.
 - B. increase by \$1,000.
 - C. decrease by \$2,000.
46. Which of the following statements *best* describes a trial balance? A trial balance is a document or computer file that:
- A. shows all business transactions by account.
 - B. lists account balances at a particular point in time.
 - C. contains business transactions recorded in the order in which they occur.
- that lists account balances at a particular point in time.
47. Under IFRS, which of the following financial statement elements *most* accurately represents inflows of economic resources to a company?
- A. Assets.
 - B. Equity.
 - C. Revenues.
48. According to the IFRS framework, which of the following is the *least likely* qualitative characteristic that makes financial information useful?
- A. Materiality.
 - B. Comparability.
 - C. Understandability.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

49. Which of the following statements is *most* accurate?
- A. Treasury stock is non-voting and receives no dividends.
 - B. Minority interest on the balance sheet represents a position the company owns in other companies.
 - C. A classified balance sheet arises when in an auditor's opinion the financial statements materially depart from accounting standards and are not presented fairly.
50. The following information is available on a company for the current year.

Net income	\$1,000,000
Average number of common shares outstanding	100,000
Details of convertible securities outstanding:	
Convertible preferred shares outstanding	2,000
o dividend/share	\$10
o each preferred is convertible into 5 shares of common stock	
Convertible bonds, \$100 face value per bond	\$80,000
o 8% coupon	
o each bond is convertible into 25 shares of common stock	
Corporate tax rate	40%

The company's diluted EPS is *closest* to:

- A. \$7.57.
 - B. \$7.69.
 - C. \$7.72.
51. During 2010, Company A sold a piece of land with a cost of \$6 million to Company B for \$10 million. Company B made a \$2 million down payment with the remaining balance to be paid over the next 5 years. It has been determined that there is significant doubt about the ability and commitment of the buyer to complete all payments. Company A would *most likely* report a profit in 2010 of:
- A. \$4 million using the accrual method.
 - B. \$0.8 million using the installment method.
 - C. \$2 million using the cost recovery method.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

52. A company's balance sheet shows the following:

	December 31, 2010
Current Assets	
Cash and cash equivalents	\$ 2,950
Marketable securities	730
Notes and accounts receivable, trade	5,740
Allowance for doubtful accounts	(650)
Inventories	1,320
Deferred income taxes	1,160
Other current assets	690
Total current assets	\$ 11,940
Current Liabilities	
Accounts payable and other accrued liabilities	\$ 5,100
Current portion of borrowings	1,820
Other current liabilities	2,560
Total current liabilities	\$ 9,480

The company's quick ratio is *closest* to:

- A. 0.4.
 - B. 0.9.
 - C. 1.3.
53. The following information is from a company's investment portfolio:

Investment	
Classification	Held-to-maturity
Market value, 31 Dec 2009	\$ 17,000
Cost/Amortized cost 31 Dec 2009	22,000
Market value, 31 Dec 2010	10,000
Cost/Amortized cost 31 Dec 2010	20,000

If the investment is reclassified as Available-for-sale as of 31 December 2010, the balance sheet carrying value of the company's investment portfolio would *most likely*:

- A. remain the same.
- B. decrease by \$10,000.
- C. decrease by \$12,000.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

54. A company reports its interest payments on long-term debt as a financing activity under IFRS. If the company reports under U.S. GAAP, the *most likely* effect would be:

- A. an increase in cash flow from operations.
- B. a decrease in cash flow from investing activities.
- C. an increase in cash flow from financing activities.

55. The following information (in millions) on a company is available:

Cost of goods sold	\$ 500
Increase in total assets	250
Increase in total liabilities	200
Change in inventory	(30)
Change in accounts payable	(25)

The amount of cash (in millions) that the company paid to its suppliers is *closest* to:

- A. \$445.
- B. \$495.
- C. \$505.

56. Which of the following statements is *most* accurate regarding cash flow ratios?

- A. Interest coverage ratio is calculated as operating cash flow over interest payments.
- B. Debt payment ratio measures the firm's ability to pay debts with operating cash flows.
- C. Reinvestment ratio measures the firm's ability to acquire assets with investing cash flows.

57. Which of the following is the *least* appropriate accounting treatment for marketable securities under IAS No. 39?

	Category	Measurement Method	Realized Gains & Losses Reported In
A.	Trading	Fair Value	Income Statement
B.	Held to maturity	Amortized Cost	Income Statement
C.	Available for sale	Fair Value	Equity

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

58. A U.S. pulp brokerage firm which prepares its financial statements according to U.S. GAAP and uses a periodic inventory system had the following transactions during the year:

Date	Activity	Tons (000s)	\$ per Ton
	Beginning inventory	1	600
February	Purchase	5	650
May	Sale	2	700
August	Purchase	3	680
November	Sale	4	750

The cost of sales (in '000s) is *closest* to:

- A. \$3,850 using FIFO.
 - B. \$4,080 using LIFO.
 - C. \$5,890 using weighted average.
59. A review of a company's inventory records for the year indicates that the following costs were incurred:

Fixed production overhead:	\$500,000
Direct material and direct labor:	300,000
Storage costs incurred during production:	25,000
Abnormal waste costs:	30,000

If the company operated at full capacity during the year, the total capitalized inventory cost is *closest* to:

- A. \$800,000.
 - B. \$825,000.
 - C. \$855,000.
60. In a period of rising prices, when compared to a company that uses weighted average cost for inventory, a company using FIFO will *most likely* report higher values for its:
- A. return on sales.
 - B. inventory turnover.
 - C. debt-to-equity ratio.
61. A company, which prepares its financial statements in accordance with IFRS is in the process of developing a more efficient production process for one of its primary products. The *most* appropriate accounting treatment for those costs incurred in the project is to:
- A. expense them as incurred.
 - B. capitalize costs directly related to the development.
 - C. expense costs until technical feasibility has been established.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

62. A Canadian printing company which prepares its financial statements according to IFRS has experienced a decline in the demand for its products. The following information relates to the company's printing equipment as of 31 December 2010.

	C\$
Carrying value of equipment (net book value)	500,000
Undiscounted expected future cash flows	550,000
Present value of expected future cash flows	450,000
Fair Value	480,000
Costs to sell	50,000
Value in use	440,000

The impairment loss (in C\$) is *closest* to:

- A. 0.
B. 60,000.
C. 70,000.
63. A company which prepares its financial statements in accordance with IFRS incurred and capitalized €2 million of development costs during the year. These costs were fully deductible immediately for tax purposes, but the company is depreciating them over two years for financial reporting purposes. The company has a long history of profitability which is expected to continue. Which is the *most* appropriate way for an analyst to incorporate the differential tax treatment in his analysis? He should include it in:
- A. liabilities when calculating the company's current ratio.
B. equity when calculating the company's return on equity ratio.
C. liabilities when calculating the company's debt-to-equity ratio.
64. A company issued \$2,000,000 of bonds with a 20 year maturity at 96. Seven years later, the company called the bonds at 103 when the unamortized discount was \$39,000. The company would *most likely* report a loss of:
- A. \$60,000.
B. \$99,000.
C. \$138,000.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

65. A company has recently revalued one of its depreciable properties and estimated that its remaining useful life would be another 20 years. The applicable tax rate for all years is 30% and the revaluation of the property is not recognized for tax purposes. Details related to this asset are provided in the table below, with all £-values in millions.

	Accounting Purposes	Tax Purposes
Original values and estimates, start of 2007		
2007 Acquisition cost	£8,000	£8,000
Depreciation, straight-line	20 years	8 years
Accumulated depreciation end of 2009	£1,200	£3,000
Net balance end of 2009	£6,800	£5,000
Re-estimated values and estimates, start of 2010		
Revaluation balance start of 2010	£10,000	Not applicable
New estimated life	20 years	

The deferred tax liability (in millions) as at the end of 2010 is *closest to*:

- A. £690.
B. £960.
C. £1,650.
66. Which of the following is *least likely* to be a warning sign of low quality earnings?
- A. Greater use of operating leases than peer companies.
B. Use of a higher discount rate in pension plan assumptions.
C. A ratio of operating cash flow to net income greater than 1.0.
67. If a nonfinancial company securitizes its accounts receivables for less than their book value, the *most likely* effect on the financial statements is to increase:
- A. net income.
B. cash from operations.
C. cash from financing activities.
68. An analyst uses a stock screener and selects the following metrics: a global equity index, P/E ratio lower than the median P/E ratio, and a price-book value ratio lower than the median price-book value ratio. The stocks so selected would be *most* appropriate for portfolios of which type of investors?
- A. Value investors.
B. Growth investors.
C. Market-oriented investors.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

Questions 69 through 78 relate to Corporate Finance

69. A company's optimal capital budget *most likely* occurs at the intersection of the:
- A. net present value and internal rate of return profiles.
 - B. marginal cost of capital and net present value profiles.
 - C. marginal cost of capital and investment opportunity schedule.
70. Which of the following is *most likely* a sign of a good corporate governance structure?
- A. Independent board members comprise a minority proportion on the company's board.
 - B. The separation of the chief executive position from the chair position on the company's board.
 - C. Independent board members are allowed to meet shareholders only in the presence of the entire board.
71. A company's \$100 par value preferred stock with a dividend rate of 9.5% per year is currently priced at \$103.26 per share. The company's earnings are expected to grow at an annual rate of 5% for the foreseeable future. The cost of the company's preferred stock is *closest* to:
- A. 9.2%.
 - B. 9.5%.
 - C. 9.7%.
72. Which is *most likely* considered a secondary source of liquidity?
- A. Trade credit.
 - B. Liquidating long-term assets.
 - C. Centralized cash management system.
73. Using the debt-rating approach to find the cost of debt is *most* appropriate when market prices for a company's debt are:
- A. stable.
 - B. unreliable.
 - C. below par value.
74. A twenty-year \$1,000 fixed rate non-callable bond with 8% annual coupons currently sells for \$1,105.94. Assuming a 30% marginal tax rate and an additional risk premium for equity relative to debt of 5%, the cost of equity using the bond-yield-plus-risk-premium approach is *closest* to:
- A. 9.9%.
 - B. 12.0%.
 - C. 13.0%.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

75. Business risk *most likely* incorporates operating risk and:
- A. sales risk.
 - B. financial risk.
 - C. interest rate risk.
76. If the degree of financial leverage (DFL) is 1.00, the operating breakeven point compared to the breakeven point, is *most likely*:
- A. lower.
 - B. higher.
 - C. the same.
77. A company decides to repurchase 5 million of its outstanding 20 million shares with debt funding. After the repurchase, the company's after-tax earnings decline by 20%. The new earnings per share (EPS) is *most likely*:
- A. equal to the pre-repurchase EPS.
 - B. less than the pre-repurchase EPS.
 - C. greater than the pre-repurchase EPS.
78. In a sales-driven pro forma analysis, retained earnings is *most* accurately forecasted as:
- A. a percentage of forecasted sales.
 - B. previous retained earnings plus forecasted financing surplus or deficiency.
 - C. previous retained earnings plus forecasted net income less forecasted dividends.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

Questions 79 through 90 relate to Equity Investments

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

Number of shares	500
Purchase price per share	\$28
Leverage ratio	3.33
Commission	\$0.05 / share
Position holding period	6 months
Sale price per share	\$30
Call money rate	5% per year
Dividend	\$0.40 / share

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

- A. 15.6%.
B. 16.7%.
C. 21.4%.
80. In futures markets, contract performance is *most likely* guaranteed by:
- A. clearing houses.
B. regulatory agencies.
C. the futures exchanges.
81. An equity fund manager is considering a market index as benchmark for his portfolio and he has the following preferences:
- the index should have a contrarian "effect";
 - shares held by controlling shareholders should not be excluded;
 - dividends should be included in the weighting of constituent securities; and
 - the weights of constituent securities should not be arbitrarily determined by the index provider.

Which of the following weightings of indices *best* meets the fund manager's preferences?

- A. Equal.
B. Fundamental.
C. Float-adjusted market-capitalization.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

82. Which of the following is the *most* accurate characterization of momentum anomalies?
Momentum anomalies:
- A. relate to long-term price patterns.
 - B. relate to short-term price patterns.
 - C. are consistent with weak-form market efficiency.
83. The advantages to an investor owning convertible preference shares of a company *most likely* include:
- A. less price volatility than the underlying common shares.
 - B. preference dividends that are fixed contractual obligations of the company.
 - C. an opportunity to receive additional dividends if the company's profits exceed a pre-specified level.
84. A company has issued only one class of common shares and it does not pay dividends on them. It has also issued two types of preference shares – one that is putable and the other callable – and both have a non-cumulative feature. Which of these securities will *most likely* offer the lowest expected return to the investor?
- A. Common shares.
 - B. Putable preference shares.
 - C. Callable preference shares.
85. An industry experiencing slow growth, high prices, and volumes insufficient to achieve economies of scale is *most likely* in the:
- A. mature stage.
 - B. shakeout stage.
 - C. embryonic stage.
86. Which of the following industries is *most likely* characterized by low barriers to entry, fierce competition, fragmented structure, and weak pricing power?
- A. Restaurants.
 - B. Proprietary drugs.
 - C. Credit card processing.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

87. A fund manager compiles the following data on two companies:

	<u>Company A</u>	<u>Company B</u>
Return on assets	10.9%	9.0%
Return on equity	15.4%	14.3%
Dividend payout ratio	0.35	0.30
Required return on equity	13.0%	12.4%
Weighted average cost of capital	11.8%	11.7%

Based on the information provided, the *most* accurate conclusion is that Company A's stock is more attractive relative to that of Company B's because of its:

- A. smaller P/E ratio.
 - B. greater financial leverage.
 - C. higher dividend growth rate.
88. An investor wants to determine the intrinsic value of the common stock for a company with the following characteristics:
- The firm maintains a constant dividend payout ratio
 - Goodwill and patents account for 40% of the firm's assets
 - The firm's revenues and earnings are highly correlated with the business cycle

Further, the investor focuses on the firm's capacity to pay dividends rather than expected dividends. Considering the above, the investor will *most likely* use which of the following valuation models?

- A. Asset-based valuation model.
- B. Free-cash-flow-to-equity model.
- C. Gordon dividend growth model.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

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

EBITDA	\$65.8 million
Value of debt	\$90.0 million
Value of preferred stock	\$25.4 million
Cash & marketable securities	\$6.9 million
Number of common shares outstanding	12.5 million
Firm's tax rate	30%
Appropriate EV/EBITDA multiple	6x

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

- A. \$13.43.
 - B. \$22.35.
 - C. \$22.90.
90. An analyst attempting to value the shares of a company has gathered the following data:

Return on equity	12%
Dividend payout ratio	40%
Required rate of return on shares	15%
Current year's dividend per share	\$3.60

Using the Gordon growth model, the intrinsic value per share is *closest* to:

- A. \$36.96.
- B. \$46.15.
- C. \$49.49.

Questions 91 through 96 relate to Derivative Investments.

91. In contrast to over-the-counter options, futures contracts:
- A. are not exposed to default risk.
 - B. are private, customized transactions.
 - C. represent a right rather than a commitment.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

92. An investor purchases 10 futures contracts priced at \$100 each. The initial margin is \$20 per contract and the maintenance margin requirement is \$10 per contract. The investor will *most likely* be required to post variation margin if the end-of-day prices over the next three days are:

	Day 1	Day 2	Day 3
A.	\$103	\$109	\$104
B.	\$106	\$98	\$89
C.	\$95	\$91	\$103

93. Based on put-call parity for European options, a synthetic put is *most likely* equivalent to a:

- A. long call, short underlying asset, long bond.
- B. long call, long underlying asset, short bond.
- C. short call, long underlying asset, short bond.

94. Which of these statements is *most likely* correct for an option?

- A. Market price equals intrinsic value less time value.
- B. Intrinsic value equals market price less time value.
- C. Time value equals intrinsic value less market price.

95. Which statement *best* describes option price sensitivities? The value of a:

- A. call option increases as interest rates rise.
- B. put option increases as volatility decreases.
- C. put option decreases as interest rates decline.

96. A company and its bank have entered into a currency swap in which the company pays USD to the bank. The currency swap details are provided below:

	Notional	FX Rate	Swap Rate	# Days Period	# Days Year
Company	USD130,000,000	USD 1.30	4.00%	180	360
Bank	EUR100,000,000	EUR 1.00	2.00%	180	360

Which of these interest payments will *most likely* be made by one of the parties in the transaction?

- A. Bank will make a payment of USD 1,000,000.
- B. Bank will receive a payment of USD 2,600,000.
- C. Company A will receive a payment of EUR 1,300,000.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

Questions 97 through 108 relate to Fixed Income Investments.

97. An investment banking firm offers a corporation a binding bid to purchase an amount of new debt securities to be issued by the corporation with a specified coupon rate and maturity. The corporation can accept or reject this bid. This type of security distribution is *best* described as:
- A. best efforts.
 - B. bought deal.
 - C. competitive bidding.
98. A bond market analyst states, "The current term structure of interest rates is upward sloping which implies the market believes short-term interest rates will rise in the future." Which theory of the term structure of interest rates does the analyst *most likely* believe?
- A. Pure expectations theory.
 - B. Liquidity preference theory.
 - C. Market segmentation theory.
99. An investor who has a 42% marginal tax rate is analyzing a tax-exempt bond that offers a yield of 3.74%. The taxable-equivalent yield of the bond is closest to:
- A. 5.31%.
 - B. 6.45%.
 - C. 8.90%.
100. A bond portfolio manager is considering three Bonds – A, B, and C – for his portfolio. Bond A allows the issuer to call the bond before stated maturity, Bond B allows the investor to put the bond back to the issuer before stated maturity, and Bond C contains no embedded options. The bonds are otherwise identical. The manager tells his assistant, "Bond A and Bond B should have larger nominal yield spreads to a U.S. Treasury than Bond C to compensate for their embedded options." Is the manager *most likely* correct?
- A. Yes.
 - B. No, Bond A's nominal yield spread should be less than Bond C's.
 - C. No, Bond B's nominal yield spread should be less than Bond C's.
101. If the appropriate annual discount rate is 6%, the value of a 3-year bond that has a 7% coupon rate, has a maturity (par) value of \$1,000, and pays interest annually is *closest to*:
- A. \$973.76.
 - B. \$1,026.73.
 - C. \$1,049.17.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

102. If the price of a U.S. Treasury security is higher than its arbitrage-free value, a dealer can generate an arbitrage profit by:

- A. shorting the U.S. Treasury security and calling it from the issuer.
- B. shorting the U.S. Treasury security and reconstituting it from strips.
- C. buying the U.S. Treasury security, stripping it and selling the strips.

103. The bond-equivalent yield (BEY) spot rates for U.S. Treasury yields are provided below.

Period	Years	Spot Rate
1	0.5	1.20%
2	1.0	2.10%
3	1.5	2.80%
4	2.0	3.30%

On a BEY basis, the 6-month forward rate one year from now is *closest to*:

- A. 2.10%.
- B. 3.64%.
- C. 4.21%.

104. Holding all other characteristics the same, the bond exposed to the greatest level of reinvestment risk is *most likely* the one selling at:

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

105. A 6% 25-year bond with semiannual payments has a market price of \$850.00. The yield to maturity of this bond is *closest to*:

- A. 5.72%
- B. 7.32%.
- C. 7.91%.

106. Which of these definitions of duration is *most* relevant to a bond investor? A bond's duration is its:

- A. half-life.
- B. price sensitivity to yield changes.
- C. first derivative of value with respect to its yield.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

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

- A. -2.35%.
- B. -2.25%.
- C. -2.15%.

108. A portfolio consists of four bonds with the following characteristics:

Bond	Market Value	Duration
A	\$1.2 million	3.2
B	\$3.4 million	7.6
C	\$2.9 million	12.4
D	\$1.6 million	1.5

The duration of the portfolio is *closest to*:

- A. 5.40.
- B. 6.18.
- C. 7.48.

Questions 109 through 114 relate to Alternative Investments.

109. An office building with net operating income of \$75,000 recently sold for \$937,500. Financial data for a comparable building that is currently on the market for sale is presented in the table below.

	Annual income or expense
Gross potential rental income	\$300,000
Estimated vacancy and collection losses	4%
Insurance and taxes	\$27,000
Utilities	\$14,000
Repairs and maintenance	\$21,000
Depreciation	\$15,000
Interest rate on proposed financing	7%

The estimated value for the building being sold using the income approach is *closest to*?

- A. \$2,825,000.
- B. \$2,975,000.
- C. \$3,228,500.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

110. An initial investment of \$1 million in a venture capital project is expected to pay \$10 million at the end of 5 years if it is successful. The probabilities of failure for the project are provided in the table below:

Year:	1	2	3	4	5
Failure Probability:	0.30	0.25	0.20	0.20	0.20

- If the cost of capital for the project is 18%, the project's expected NPV is *closest* to:
- A. -\$731,200.
 - B. \$174,950.
 - C. \$906,150.
111. An investor in exchange traded funds (ETFs) is *most likely* to benefit from its:
- A. end of day pricing.
 - B. lack of tracking error risk.
 - C. lower capital gains tax liability relative to mutual funds.
112. Which of the following statements is *least likely* an advantage of investing in hedge funds through a fund of funds? Funds of funds provide:
- A. an increase in expected return through diversification.
 - B. expertise in selecting funds and conducting due diligence.
 - C. access to successful funds that may otherwise be closed to new investors.
113. In estimating the value of inactively traded securities of a closely held corporation, which of the following is applied to the market value of a publicly traded comparable company?
- A. Control premium.
 - B. Marketability discount.
 - C. Minority interest discount.
114. An index provider has created a new investable index that tracks the hedge fund industry. Any fund that follows a long/short equity strategy can enter the index. The index provider places new constituents in the index at the end of each year and incorporates the new funds' track record in the database. Which of the following is *least likely* a bias that might distort the historical performance of the index?
- A. Backfilling.
 - B. Self-selection.
 - C. Tracking error.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

Questions 115 through 120 relate to Portfolio Management.

115. With respect to the portfolio management process, asset allocation decisions are made in the:
- A. planning step.
 - B. feedback step.
 - C. execution step.
116. A key difference between a wrap account and a mutual fund is that wrap accounts:
- A. have a lower required minimum investment.
 - B. can not be tailored to the tax needs of a client.
 - C. have assets that are owned directly by the individual.
117. An analyst observes that the historic geometric returns are 9% for equities, 3% for treasury bills, and 2% for inflation. The real rate of return and risk premium for equities are *closest* to:
- A. 5.8% and 3.7%.
 - B. 6.9% and 3.8%.
 - C. 6.9% and 5.8%.
118. If Investor A has a lower risk aversion coefficient than Investor B, on the capital allocation line, will Investor B's optimal portfolio have a higher expected return?
- A. Yes.
 - B. No, since Investor B has a lower risk tolerance.
 - C. No, since Investor B has a higher risk tolerance.
119. Information for Stock A and the market appear below:

Standard deviation of Stock A's return	40%
Standard deviation of the market's return	20%
Correlation of Stock A with the market	85%

The beta of Stock A is *closest* to:

- A. 0.43.
- B. 1.70.
- C. 2.35.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.

120. A portfolio manager decides to temporarily invest more of a portfolio in equities than the investment policy statement prescribes, because he expects equities will generate a higher return than other asset classes. This decision is *most likely* an example of:
- A. rebalancing.
 - B. tactical asset allocation.
 - C. strategic asset allocation.

Answer = B

Basics of Portfolio Planning and Construction,” Alistair Byrne, CFA, and Frank E. Smudde, CFA
2011 Modular Level I, Vol. 4, pp. 450, 467, 477

Study Session 12-54-g

Discuss the principles of portfolio construction and the role of asset allocation in relation to the IPS.

B is correct. Tactical asset allocation is the decision to deliberately deviate from the policy exposures to systematic risk factors with the intent to add value based on forecasts of the near-term returns of those asset classes.

By accessing this mock exam, you agree to the following terms of use: This mock exam is provided to currently-registered CFA candidates. Candidates may view and print the exam for personal exam preparation only. The following activities are strictly prohibited and may result in disciplinary and/or legal action: accessing or permitting access by anyone other than currently-registered CFA candidates; copying, posting to any website, emailing, distributing and/or reprinting the mock exam for any purpose.