

2007 December CFA Level 1 – Sample Exam 3 Answers

Q4. B

Study Session 1-3-g, 1-4-g

Verification procedures include a) definition of the firm; b) composite construction; c) nondiscretionary accounts; d) sample account selection; e) account review; f) performance measurement calculation; g) disclosure; and h) maintenance of records. Calculation methodology is one of the eight major sections of the Global Investment Performance Standards (GIPS), not the verification process.

Q45. D

Study Session 14-60.a

Toward the business cycle peak, the rate of inflation increases as demand starts to outstrip supply. In basic materials industries that transform raw materials into finished goods inflation would have little influence on the cost of extraction but there will be leeway to increase prices.

Q52. C

Study Session 16-72.b

At relatively high yield levels, the value of a comparable callable bond is basically the same as an option-free bond because the value of the call option is very small (the callable bond will trade at a slightly lower price because the value of the call option is subtracted). At high yield levels, the price of a comparable puttable bond will be higher than the price of the option-free bond because the value of the put option is added.)