

2010 Level I Mock Exam: Morning Session

The morning session of the 2010 Level I Chartered Financial Analyst® 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. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, trading on material nonpublic information is *least likely* to be prevented by establishing:
 - A. fire-walls.
 - B. watch lists.
 - C. selective disclosure.

2. William Wong, CFA, is an equity analyst with Hayswick Securities. Based on his fundamental analysis, Wong concludes the stock of a company he follows, Nolvec Inc., is substantially undervalued and will experience a large price increase. He delays revising his recommendation on the stock from “hold” to “buy” to allow his brother to buy shares at a lower price. Wong is *least likely* to have violated the CFA Institute Standards of Professional Conduct related to:
 - A. duty to clients.
 - B. reasonable basis.
 - C. priority of transactions.

3. During an onsite company visit, Marsha Ward, CFA, accidentally overheard the Chief Executive Officer (CEO) of Stargazer, Inc. discussing the company’s tender offer to purchase Dynamica Enterprises, a retailer of Stargazer products. According to the CFA Institute Standards of Professional Conduct, Ward *most likely* can **not** use the information because:
 - A. it relates to a tender offer.
 - B. it was overheard and might be considered unreliable.
 - C. she does not have a reasonable and adequate basis for taking investment action.

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. Ian O’Sullivan, CFA, is the owner and sole employee of two companies, a public relations firm and a financial research firm. The public relations firm entered into a contract with Mallory Enterprises to provide public relations services, with O’Sullivan receiving 40,000 shares of Mallory stock in payment for his services. Over the next 10 days, the public relations firm issued several press releases that discussed Mallory’s excellent growth prospects. O’Sullivan, through his financial research firm, also published a research report recommending Mallory stock as a “buy.” According to the CFA Institute Standards of Professional Conduct, O’Sullivan is *most likely* required to disclose his ownership of Mallory stock in the:
- A. press releases only.
 - B. research report only.
 - C. both the press release and the research report.
5. Jefferson Piedmont, CFA, a portfolio manager for Park Investments, plans to manage the portfolios of several family members in exchange for a percentage of each portfolio’s profits. As his family members have extensive portfolios requiring substantial attention, they have requested that Piedmont provide the services outside his employment with Park. Piedmont notifies his employer in writing of his prospective outside employment. Two weeks later, Piedmont begins managing the family members’ portfolios. By managing these portfolios, did Piedmont violate any CFA Institute Standards of Professional Conduct?
- A. Conflicts of Interest
 - B. Additional Compensation.
 - C. Both Additional Compensation and Conflicts of Interest.
6. The eight major provisions of the Global Investment Performance Standards (GIPS) include all of the following *except*:
- A. Input Data, Calculation Methodology, and Real Estate.
 - B. Fundamentals of Compliance, Composite Construction, and Disclosures.
 - C. Calculation Methodology, Composite Construction, and Alternative Assets.

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. Hui Chen, CFA, develops marketing materials for an investment fund he founded three years ago. The materials show the 3-, 2- and 1-year returns for the fund. He includes a footnote that states in small print “Past performance does not guarantee future returns.” He also includes a separate sheet showing the most recent semi-annual and quarterly returns, which notes they have been neither audited nor verified. Has Chen *most likely* violated any CFA Institute Standards of Professional Conduct?
- A. No.
 - B. Yes, because he included un-audited and unverified results.
 - C. Yes, because he did not adhere to the global investment performance standards.
8. Charlie Mancini, CFA, is the Managing Director for Business Development at SV Financial, (SVF), a large U.S. based mutual fund organization. Mancini has been under pressure recently to increase revenues. In order to secure business from a large hedge fund manager based in Asia, Mancini recently approved flexible terms for the fund’s client agreement. To allow for time zone differences, the agreement permits the hedge fund to trade in all of SVF’s mutual funds six hours after the close of U.S. markets. Did Mancini violate any CFA Institute Standards of Professional Conduct?
- A. No.
 - B. Yes, with regard to Fair Dealing.
 - C. Yes, with regard to Fair Dealing and Material Nonpublic Information.
9. Ron Dunder, CFA, is the CIO for Bling Trust (BT), an investment advisor. Dunder recently assigned one of his portfolio managers, Doug Chetch, to manage several accounts that primarily invest in thinly traded micro-cap stocks. Dunder soon notices that Chetch places many stock trades for these accounts on the last day of the month, towards the market’s close. Dunder finds this trading activity unusual and speaks to Chetch who explains that the trading activity was completed at the client’s request. Dunder does not investigate further. Six months later regulatory authorities sanction BT for manipulating micro-cap stock prices at month end in order to boost account values. Did Dunder violate any CFA Institute Standards of Professional Conduct?
- A. No.
 - B. Yes, because he failed to reasonably supervise Chetch.
 - C. Yes, because he did not report his findings to regulatory authorities.

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. Ross Nelson, CFA, manages accounts for high net worth clients including his own family's account. He has no beneficial ownership in his family's account. Because Nelson is concerned about the appearance of improper behavior in managing his family's account, when his firm purchases a block of securities, Nelson allocates to his family's account only those shares that remain after his other client accounts have their orders filled. The fee for managing his family's account is based on his firm's normal fee structure. According to the *Standards of Practice Handbook*, Nelson's best course of action with regard to management of his family's account would be to:
- A. treat the account like other client accounts.
 - B. arrange for the account to be transferred to another firm.
 - C. transfer the account to another investment manager in his firm.
11. Several years ago, Leo Peek, CFA, co-founded an investment club. The club is fully invested but has not actively traded its account for at least a year and does not plan to resume active trading of the account. Peek's employer requires an annual disclosure of employee stock ownership. Peek discloses all of his personal trading accounts, but does not disclose his holdings in the investment club. Peek's actions are *least likely* to be a violation of which of the CFA Institute Standards of Professional Conduct?
- A. Misrepresentation.
 - B. Transaction priority.
 - C. Conflicts of interest.
12. Madeline Smith, CFA, was recently promoted to senior portfolio manager. In her new position, Smith is required to supervise three portfolio managers. Smith asks for a copy of her firm's written supervisory policies and procedures, but is advised that no such policies are required by regulatory standards in the country where Smith works. According to the *Standards of Practice Handbook*, Smith's *most* appropriate course of action would be to:
- A. require her firm to adopt the CFA Institute Code of Ethics and Standards of Professional Conduct.
 - B. require the employees she supervises to adopt the CFA Institute Code of Ethics and Standards of Professional Conduct.
 - C. decline to accept supervisory responsibility until her firm adopts procedures to allow her to adequately exercise such responsibility.

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. Darden Crux, CFA, a portfolio manager at SWIFT Asset Management Ltd., (SWIFT) calls a friend to join him for dinner. The friend, a financial analyst at Cyber Kinetics (CK) declines the invitation and explains she is performing due diligence on Orca Electronics, a company CK is about to acquire. After the phone call, Crux searches the Internet for any news of the acquisition but finds nothing. Upon verifying Orca is on SWIFT's approved stock list, Crux purchases Orca's common stock and call options for selective SWIFT clients. Two weeks later, CK announces its intention to acquire Orca. The next day, Crux sells all of the Orca securities, giving the fund a profit of \$3 million. What action should Crux *most likely* take to avoid violating any CFA Institute Standards of Professional Conduct?
- A. Refuse to trade based on the information.
 - B. Purchase the stock and call options for all clients.
 - C. Trade only after analyzing the stock diligently and thoroughly.
14. Justin Blake, CFA, a retired portfolio manager owns 20,000 shares of a small public company that he would like to sell. He posts messages on several Internet bulletin boards. The messages read, "This stock is going up once the pending patents are released so now is the time to buy. You would be crazy to sell anything below \$3 in a few months from now. The stock is a buy at anything below \$3. I have done some close research on these guys." According to the *Standards of Practice Handbook*, Blake *most likely* violated the Standard or Standards associated with:
- A. Integrity of Capital Markets and Conflicts of Interest.
 - B. Integrity of Capital Markets, but not Conflicts of Interest.
 - C. Neither Integrity of Capital Markets nor Conflicts of Interest.
15. The Global Investment Performance Standards (GIPS) *least likely* requires:
- A. non-discretionary portfolios to be included in composites.
 - B. non fee-paying portfolios to be excluded in the returns of appropriate composites.
 - C. composites to be defined according to similar investment objectives and/or strategies.

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

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

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

- A. No.
 - B. Yes, relating to diligence and reasonable basis.
 - C. Yes, relating to her employer's compliance procedures.
17. Miranda Grafton, CFA, purchased at varying prices during the trading session a large block of stock on behalf of specific accounts she managed. The stock realized a significant gain in value before the close of the trading day, so Grafton reviewed her purchase prices to determine what prices should be assigned to each specific account. According to the *Standards of Practice Handbook*, Grafton's most appropriate action is to allocate the execution prices:
- A. by giving longer-term clients more favorable prices.
 - B. to all clients within the block trade at the same execution price.
 - C. on a weighted basis according to the size of the clients' accounts.

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.

18. Jiro Sato, CFA, deputy treasurer for May College, manages the Student Scholarship Trust. Sato issued a Request for Proposal (RFP) for domestic equity managers. Pamela Peters, CFA, a good friend of Sato, introduces him to representatives from Capital Investments, who submitted a proposal. Sato selected Capital as a manager based on the firm's excellent performance record. Shortly after the selection, Peters, who had outstanding performance as an equity manager with another firm, accepted a lucrative job with Capital. Which of the CFA Charterholders violated CFA Institute Standards of Professional Conduct?
- A. Both violated Standards.
 - B. Peters violated Standards.
 - C. Neither violated Standards.

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. A random variable with a finite number of equally likely outcomes is *best* described by a:

- A. binomial distribution.
- B. discrete uniform distribution.
- C. continuous uniform distribution.

20. The bond-equivalent yield for a semi-annual pay bond is *most likely*:

- A. equal to the effective annual yield.
- B. more than the effective annual yield.
- C. equal to double the semi-annual yield to maturity.

21. An analyst gathered the following information about a stock index:

Mean net income for all companies in the index	\$2.4 million
Standard deviation of net income for all companies in the index	\$3.2 million

If the analyst takes a sample of 36 companies from the index, the standard error of the sample mean (in \$) is *closest* to:

- A. \$88,889.
- B. \$400,000.
- C. \$533,333.

22. An analyst collects the following set of ten returns from the past.

Year	1	2	3	4	5	6	7	8	9	10
Return (%)	2.2	6.2	8.9	9.3	10.5	11.7	12.3	14.1	15.3	18.4

The geometric mean return (%) is *closest* to:

- A. 9.62.
- B. 10.80.
- C. 10.89.

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. An investor currently has a portfolio valued at \$700,000. The investor's objective is long-term growth, but the investor will need \$30,000 by the end of the year to pay her son's college tuition and another \$10,000 by year-end for her annual vacation. The investor is considering three alternative portfolios:

<i>Portfolio</i>	<i>Expected Return</i>	<i>Standard Deviation of Returns</i>
1	8%	10%
2	10%	13%
3	14%	22%

- Using Roy's safety-first criterion, which of the alternative portfolios *most likely* minimizes the probability that the investor's portfolio will have a value lower than \$700,000 at year-end?
- A. Portfolio 1
B. Portfolio 2
C. Portfolio 3
24. For an investment portfolio, the coefficient of variation of the returns on the portfolio is *best* described as measuring:
- A. risk per unit of mean return.
B. mean return per unit of risk.
C. mean excess return per unit of risk.
25. A fundamental analyst studying 100 potential companies for inclusion in her stock portfolio uses the following three screening criteria:

Screening Criterion	Number of Companies meeting the screen
Market-to-Book Ratio > 4	20
Current Ratio >2	40
Return on Equity >10%	25

Assuming that the screening criteria are independent, the probability (in %) that a given company will meet all three screening criteria is *closest* to:

- A. 2.0.
B. 8.5.
C. 20.0.

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.

26. When using stock return data, a geometric mean return calculation is *most likely* preferred over a arithmetic mean calculation because:
- A. return data can be negative.
 - B. return data can be less than one.
 - C. the geometric mean return is closer in value to the arithmetic mean.
27. An analyst collects the following set of past stock returns: -2.3%, -5.1%, 7.6%, 8.2%, 9.1%, and 9.8%. Which of the following measures of return is *most likely* the highest?
- A. Median return
 - B. Geometric mean return
 - C. Arithmetic mean return
28. A 182-day U.S. Treasury bill has a face value of \$100,000 and currently sells for \$98,500. Which of the following yields is *most likely* the lowest?
- A. Bank discount yield
 - B. Money market yield
 - C. Holding period yield
29. If a probability distribution is very similar to a normal distribution, then the kurtosis is *best* described as:
- A. leptokurtic.
 - B. mesokurtic.
 - C. platykurtic.
30. The 95% confidence interval for the sample mean is -4.56 to 3.27. The null hypothesis is that the sample mean is equal to zero. The alternative hypothesis is that the sample mean is not equal to zero (two-tail test). The null hypothesis *most* appropriately should be:
- A. rejected at a 2.5% level of significance.
 - B. rejected at a 5.0% level of significance.
 - C. accepted at a 5.0% level of significance.
31. Which of the following is *most likely* to be considered a momentum indicator?
- A. Put-call ratio
 - B. Breadth of market
 - C. Mutual fund cash position

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. Compared to a normal distribution, a lognormal distribution is *least likely* to be:
- A. skewed to the left.
 - B. skewed to the right.
 - C. useful in describing the distribution of stock prices.

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 33 through 44 relate to Economics

33. In regard to the relation between output and costs in the short-run, a decline in the marginal cost *most likely* occurs at what level of production?
- A. Low output
 - B. High output
 - C. Profit-maximizing output
34. When the supply curve of a factor is perfectly elastic the factor income is *most likely*:
- A. entirely economic rent.
 - B. entirely opportunity cost.
 - C. part economic rent and part opportunity cost.
35. The *most likely* initial (short-run) effect of demand-pull inflation is an increase in:
- A. the price level and a decrease in real GDP.
 - B. the price level and an increase in real GDP.
 - C. government expenditure followed by a decline in the quantity of money.
36. According to the short-run Phillips curve, when inflation is less than expected, the *most likely* initial effect is that:
- A. real wage rates will fall.
 - B. real interest rates will fall.
 - C. unemployment will rise above its natural rate.
37. Which of the following is the *least likely* outcome when a monopoly adopts perfect price discrimination because of the customers' differing demand elasticities?
- A. The monopolist shares the total surplus with consumers.
 - B. The price for marginal unit becomes less than the price for other units.
 - C. The output increases to the point at which price equals the marginal cost.
38. Which of the following is *least likely* to resolve or reduce the principal-agent problem in organizations?
- A. Ownership
 - B. Long-term contracts
 - C. Professional management

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.

39. The crowding-out effect suggests that government borrowing to finance higher expenditures will *most likely* increase:
- A. private investment.
 - B. the real interest rate.
 - C. the supply of loanable funds.
40. The view that the money wage rates are sticky in the short-run is *least likely* held by which of the following schools of thought?
- A. Classical
 - B. Keynesian
 - C. Monetarist
41. The Nash equilibrium for a duopoly faced with a “Prisoners’ Dilemma” set of choices is *most likely* to result in:
- A. both firms earn economic profits.
 - B. neither firm earns an economic profit.
 - C. one of the firms earns an economic profit but the other firm does not.
42. Limited liability is *most likely* to be an advantage of which type of business organization?
- A. Partnership
 - B. Corporation
 - C. Proprietorship
43. In a simple economy containing only two goods – apples and shirts – the prices and quantities in the base period and the current period are:

Base Period	Quantity	Price (\$)
Apples	25	1.00
Shirts	5	20.00
Current period	Quantity	Price (\$)
Apples	25	1.25
Shirts	5	20.50

Assuming the base period consumer price index (CPI) = 100, the CPI for the current period is *closest* to:

- A. 103.57.
- B. 107.00.
- C. 113.75.

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.

44. A consumer good demonstrates the following changes in price and quantity:

	Quantity	Price (\$)
Initial quantity and price	25	15
Quantity and price following a shift in the demand curve	30	20

The elasticity of supply is *closest* to:

- A. 0.60
- B. 0.64
- C. 0.67

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 45 through 68 relate to Financial Statement Analysis

45. A firm reports sales of €50,000,000 for the year ended December 31, 2009. Its accounts receivable balances were €6,000,000 at January 1, 2009 and €7,500,000 at December 31, 2009. The company's cash collections from sales (€) for 2009 is *closest* to:
- A. 42,500,000.
 - B. 48,500,000.
 - C. 51,500,000.
46. . The table below shows changes to the number of common shares outstanding for a company during 2009:

1 January	180,000 shares outstanding
1 June	60,000 shares issued
1 August	2 for 1 stock split
31 December	480,000 shares outstanding

- To calculate earnings per share for 2009, the company's weighted average number of shares outstanding is *closest* to:
- A. 215,000.
 - B. 420,000.
 - C. 430,000.
47. In the statement of cash flows, a company is allowed to classify interest paid:
- A. in either the operating or financing section under IFRS.
 - B. in either the operating or financing section under U.S. GAAP.
 - C. only in the financing section under both IFRS and U.S. GAAP.

48. A company entered into a three-year construction project with a total contract price of \$5.3 million and an expected total cost of \$4.4 million. The following table provides cash flow information relating to the contract:

	All figures in \$		
	Year 1	Year 2	Year 3
Costs incurred and paid	600,000	3,000,000	800,000
Amounts billed and payments received	1,200,000	2,800,000	1,300,000

- If the company uses the percentage-of-completion method, the amount of revenue (in \$) recognized in Year 2 will be *closest* to:
- A. 2,800,000.
 - B. 3,372,727.
 - C. 3,616,636.
49. An analyst's examination of the performance of a company is *least* likely to include an assessment of a company's:
- A. profitability.
 - B. cash flow generating ability.
 - C. assets relative to its liabilities.
50. Which of the following is a constraint as defined in the International Financial Reporting Standards (IFRS) Framework for the Preparation and Presentation of Financial Statements?
- A. Neutrality
 - B. Timeliness
 - C. Going concern
51. A company, with a tax rate of 40%, sold a capital asset with a net book value of \$500,000 for \$570,000 during the year. Which of the following amounts (in \$) will *most likely* be reported on its income statement for the year related to the asset sale?
- A. 42,000
 - B. 70,000
 - C. 570,000

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.

52. Under International Financial Reporting Standards (IFRS) a bank, or other financial institution, would normally use which type of balance sheet format?
- A. Classified
 - B. Liquidity-based
 - C. Market-value based
53. A company issued shares to acquire a large tract of undeveloped land for future development. The *most likely* recording of this transaction in the cash flow statement is as a(n):
- A. disclosure in a note or supplementary schedule.
 - B. outflow from investing activities, and an inflow from financing activities.
 - C. outflow from operating activities, and an inflow from financing activities.
54. The following information is available for a company:

December 31, 2009:		
	Total Assets	\$100,000
	Net income for the year	\$4,000
	Dividends paid	\$0
	Assets are equally financed with debt and equity	
	50% of the equity comes from contributed capital	
December 31, 2010:		
	Total Assets	\$92,000
	Net loss for the year	\$3,000
	No new debt or equity issued or repurchased	

- In 2010, the company *most likely*:
- A. paid a dividend of \$1,000
 - B. paid a dividend of \$5,000
 - C. did not pay a dividend because they incurred a loss.
55. A company reported net income of \$400,000 for the year. At the end of the year, the company had an unrealized gain of \$50,000 on its available-for-sale securities, an unrealized gain of \$40,000 on held-to-maturity securities and an unrealized loss of \$100,000 on its portfolio of held-for-trading securities. The company's comprehensive income (in \$) for the year is *closest* to:
- A. 350,000.
 - B. 390,000.
 - C. 450,000.

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.

56. The table below contains selected data from the common-size balance sheets for three different industries: utilities, financials and consumer discretionary products.

	% of Total Assets		
	Industry 1	Industry 2	Industry 3
Inventories	6.9	2.6	19.4
PPE	1.9	57.5	25.4
LT Debt	18.2	31.9	19.1
Total Equity	19.5	23.2	42.3
LT = Long Term; PPE = Property, plant and equipment			

Which of the following statements is *most* accurate?

- A. Industry 1 is the utility industry and Industry 2 is the financial industry.
 - B. Industry 2 is the utility industry and Industry 3 is the consumer discretionary products industry.
 - C. Industry 1 is the consumer discretionary products industry and Industry 3 is the financial industry.
57. Due to global oversupply in the micro-chip industry a company wrote down its 2009 inventory by €4.0 million from €12.0 million. The following year, due to a change in competitive forces in the industry the market price of these chips rose sharply to 10% above their original 2009 value. If the company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS), its 2010 inventory (in €-millions) will *most likely* be reported as:
- A. 8.0.
 - B. 12.0.
 - C. 13.2.
58. An analyst calculates the following ratios for a firm:

Sales/Total Assets	Net Profit Margin (%)	Return on Total Assets (%)	Equity/ Total Assets
2.8	4	11.2	0.625

The return on equity (in %) for this firm is *closest* to:

- A. 6.4.
- B. 7.0.
- C. 17.9.

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.

59. A capital lease requires annual lease payments of \$2,000 at the start of each year. Fair value of the leased equipment at inception of the lease is \$10,000 and the implicit interest rate is 12 percent. If the present value of the lease payments equals the fair value of the equipment at the inception of the lease, the interest expense (in \$) recorded by the lessee in the second year of the lease is *closest* to:
- A. 960.
 - B. 1,104.
 - C. 1,200.
60. Two software companies that report their financial statements under U.S. GAAP (generally accepted accounting principles) are identical *except* as to how soon they judge a project to be technologically feasible. One firm does so very early in the development cycle while the other usually waits until just before the project is released to manufacturing. Compared to the company that judges technological feasibility early, the one that waits until closer to manufacturing will *most likely* report lower:
- A. financial leverage.
 - B. total asset turnover.
 - C. cash flow from operations.
61. During the past year, a company's production facility was operating at 75% of capacity. The firm's costs were as follows:

	\$ millions
Fixed production overhead costs	3
Raw materials costs	6
Labor costs	4
Freight-in costs for raw materials	1
Warehousing costs for finished goods	2

The firm ended the year with no remaining work-in-process inventory. The total capitalized inventory cost (in \$ millions) for the year is *closest* to:

- A. 13.25.
- B. 15.25.
- C. 16.00.

62. A company prepares its financial statements in accordance with U.S. GAAP (generally accepted accounting principles). It expected to be the sole supplier for a state-wide school milk program and had production facilities valued at \$28.4 million. Recently several other companies were also granted milk-supply contracts throughout the state and the company now estimates that it will only be able to generate cash flows of \$3 million per year for the next 7 years with its facilities. The firm has a cost of capital of 10%.

The impairment loss (in \$-millions) on the production facilities will *most* likely be reported in the company's financial statements as a:

- A. 13.8 reduction in operating cash flows. .
 - B. 13.8 impairment loss in the income statement
 - C. 7.4 reduction in the balance sheet carrying amount.
63. Which of the following events will *most likely* result in a decrease in a valuation allowance for a deferred tax asset under U.S. GAAP (generally accepted accounting principles)? A(n):
- A. reduction in tax rates.
 - B. decrease in interest rates.
 - C. increase in the carry forward periods available under the tax law.
64. A company presents its financial statements according to U.S. GAAP (generally accepted accounting principles) and has just issued \$5 million of mandatory redeemable preferred shares with a par value of \$100 per share and a 7% dividend. The issue matures in 5 years. Which of the following statements is *least likely* correct? At the time of the issue, the company's:
- A. debt-to-total capital ratio will improve
 - B. interest coverage ratio will deteriorate.
 - C. preferred shareholders will rank below debt holders should the company file for bankruptcy.

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 pharmaceutical company has been very successful for the past several years, increasing its sales many-fold over that of its competition. It has been able to meet or beat analysts' optimistic quarterly earnings estimates and consistently registers very high sales towards the end of each quarter. Most of the company's sales are to two of its major wholesalers. The firm covers the carrying costs for these two wholesalers and guarantees them a return on investment until the wholesalers sell the products.

Which of the three risk factors related to fraudulent financial reporting would *best* explain the behavior of this company?

- A. Opportunities
- B. Incentives/Pressures
- C. Attitudes/Rationalizations

66. Which of the following is *most likely* a benefit of debt covenants for the borrower?

- A. Reduction in the cost of borrowing.
- B. Limitations on the company's ability to pay dividends.
- C. Restrictions on how the borrowed money may be invested.

67. Under U.S. GAAP what is the *most likely* effect of the reversal of a valuation allowance related to a deferred tax asset on net income?

- A. No effect
- B. A decrease
- C. An increase

68. Which of the following accounting warning signs was evident in the Enron accounting scandal?

- A. Recording revenue from contingent sales.
- B. Accelerating sales from later periods into the present quarter.
- C. Classifying financing cash flows as operating cash flows to increase operating cash flows.

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 that sells ice cream is evaluating an expansion of its production facilities to also produce frozen yogurt. A marketing study has concluded that producing frozen yogurt would increase the company's ice cream sales because of an increase in brand awareness. What impact will the cash flows from the expected increase in ice cream sales *most likely* have on the NPV of the yogurt project?

- A. Increase
- B. Decrease
- C. No effect

70. The following information is available for a company and the industry in which it competes:

	Company	Industry
Accounts receivable turnover	5.6 times	6.5 times
Inventory turnover	4.2 times	4.0 times
Number of days of payables	28 days	36 days

Relative to the industry, the company's operating cycle:

- A. and cash conversion cycle are both longer.
- B. is longer, but its cash conversion cycle is shorter.
- C. is shorter, but its cash conversion cycle is longer.

71. An analyst gathered the following information about a company that expects to fund its capital budget without issuing any additional shares of common stock:

Source of capital	Capital structure proportion	Marginal after-tax cost
Long-term debt	50%	6%
Preferred stock	10%	10%
Common equity	40%	15%

Net present values of three independent projects:	
Warehouse project	\$426
Equipment project	\$0
Product line project	-\$185

- If no significant size or timing differences exist among the projects and the projects all have the same risk as the company, which project has an internal rate of return that exceeds 10 percent?
- A. All three projects
 - B. The warehouse project only
 - C. The warehouse project and the equipment project
72. An analyst is developing net present value (NPV) profiles for two investment projects. The only difference between the two projects is that Project 1 is expected to receive larger cash flows early in the life of the project, while Project 2 is expected to receive larger cash flows late in the life of the project. The sensitivities of the projects' NPVs to changes in the discount rate is *best* described as:
- A. equal for the two projects.
 - B. lower for Project 1 than for Project 2.
 - C. greater for Project 1 than for Project 2.

73. A company wants to determine the cost of equity to use in calculating its weighted average cost of capital. The controller has gathered the following information:

Rate of return on 3-month Treasury bills	3.0%
Rate of return on 10-year Treasury bonds	3.5%
Market equity risk premium	6.0%
The company's estimated beta	1.6
The company's after-tax cost of debt	8.0%
Risk premium of equity over debt	4.0%
Corporate tax rate	35%

- Using the capital asset pricing model (CAPM) approach, the cost of equity (%) for the company is *closest* to:
- A. 7.5.
 - B. 12.6.
 - C. 13.1.
74. Which of the following is the *most* appropriate technique for forecasting cash flow for the short term?
- A. Statistical models
 - B. Simple projections
 - C. Projection models and averages
75. Given two mutually exclusive projects with normal cash flows, the points at which the net present value profiles intersect the horizontal axis are *most likely* to be the:
- A. crossover rate for the projects.
 - B. internal rates of return of the projects.
 - C. the company's weighted average cost of capital (WACC).
76. An investment fund owns 8 percent of the outstanding voting shares of a public company. There are several larger voting blocks of shares such that the investment fund is not assured of being able to elect representation on the board of directors. Which type of shareholder voting right would be *most* beneficial in allowing the investment fund to ensure their interests are represented on the board?
- A. Proxy
 - B. Cumulative
 - C. Confidential

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.

77. Information about the 2009 actual results for a company and its projected sales, cost of goods sold and assets for 2010 are presented below:

	All figures in £-000s	
	2009 actual	2010 projected
Sales	9,000	9,900
Cost of goods sold	3,000	3,450
Total assets	4,500	4,725
Current assets	1,800	
Current liabilities	1,200	

- Based on the projected sales increase, the best estimate of 2010 projected current assets (in £- 000s) is *closest* to:
- A. 1,890.
 - B. 1,980.
 - C. 2,070.
78. Assuming trade credit terms of 2/10 net 40, paying the supplier on the 30th day creates an annualized cost of trade credit (%) *closest* to:
- A. 27.9.
 - B. 44.6.
 - C. 109.0.

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.

Questions 79 through 90 relate to Equity Investments

79. In an efficient market, fundamental analysis *most likely* requires that the analyst must:
- A. extrapolate historical data to estimate future values and take investment decisions.
 - B. do a superior job of estimating the relevant variables and predict earnings surprises.
 - C. use trading rules for detecting the price movements that lead to new equilibrium prices.
80. A large manufacturing company is in a competitive industry. It has above-average investment opportunities and its return on investments has been above the required rate of return. The firm retains a large portion of earnings to fund its superior investment projects. The company is *best* characterized as a:
- A. growth company.
 - B. cyclical company.
 - C. speculative company.
81. A security market with price continuity is *most* accurately characterized as a market in which:
- A. assets can be bought or sold quickly with minimal transaction costs.
 - B. prices change rapidly from one transaction to the next in response to new information.
 - C. prices do not change much from one transaction to the next in the absence of new information.

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. An analyst gathered the following information for a company whose common stock is currently priced at \$40 per share:

	2005	2006	2007	2008	2009
Earnings per share (\$)	1.16	0.62	1.28	1.60	(1.30)
Book value per share (\$)	8.48	8.92	16.04	19.28	16.30
Return on equity (ROE)	14%	7%	8%	8%	

- A severe cyclical contraction occurred in 2009 for a major segment of the company's operations. What is the *most* accurate estimate of the stock's P/E ratio assuming the analyst uses the average ROE method for normalizing the firm's EPS?

- A. 26.5
 - B. 32.8
 - C. 34.2
83. Which of the following *most accurately* describes the computation of nearly all bond market indices, U.S. and global?
- A. Model priced
 - B. Trader priced
 - C. Market priced

84. An analyst gathers the following data about a company and the market:

Earnings per share – most recent year	\$2.00
Expected growth rate of dividends	5.10%
Dividend payout ratio	60%
Stock's beta	1.50
Market risk premium	5.60%
Risk-free rate	4.20%
Company's weighted average cost of capital	12.00%

Using the dividend discount model the company's price per share (in \$) is *closest* to:

- A. 16.00.
- B. 16.82.
- C. 18.28.

85. All else equal, a decrease in the expected rate of inflation will *most likely* result in a decrease in:
- A. the real risk-free rate.
 - B. the nominal risk-free rate.
 - C. both real and nominal risk-free rates.
86. A security market in which all the bids and asks for a stock are gathered to arrive at a single price that satisfies most of the orders is *best* described as a:
- A. call market.
 - B. dealer market.
 - C. primary market.
87. Which of the following statements *most* accurately describes the weak-form Efficient Market Hypothesis (EMH)? The weak-form EMH assumes that current security prices:
- A. fully reflect all information from public and private sources.
 - B. fully reflect all security market information, including transactions by exchange specialists.
 - C. adjust rapidly to the release of all public information; that is, security prices fully reflect all public information.
88. An analyst gathered the following information about a company:

Current annual earnings per share (E_0) reported	\$6.00
Current annual dividend per share (D_0) paid on the company's common stock	\$2.40
Required rate of return on the company's common stock	15.0%
Expected constant growth rate in earnings and dividends	8.0%

If markets are in equilibrium, which of the following statements *best* describes the company's price-to-earnings (P/E) ratio? The company's P/E ratio based on the infinite period dividend discount model (DDM) is:

- A. less than the company's trailing P/E ratio.
- B. the same as the company's trailing P/E ratio.
- C. greater than the company's trailing P/E ratio.

89. An investor borrows the maximum amount allowed by the initial margin requirement of 40 percent to purchase 100 shares of a stock selling at \$60 per share. If the investor sells the stock when its price increases to \$70 per share, her return (%), before commissions and interest, will be *closest* to:
- A. 16.7
 - B. 27.8
 - C. 41.7
90. Data that helps to compute expected growth rates of companies are furnished below:

	Company 1	Company 2
Dividend payout ratio	37.5%	40.0%
Return on assets	12%	10.0%
Financial leverage	1.6	2.0

Which of the following *best* describes the expected growth rate of Company 1?
The expected growth rate of Company 1 compared to Company 2 is:

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

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 91 through 96 relate to Derivative Investments.

91. A company is long an interest rate swap with a current market value of \$125,000. The company wants to terminate this swap before the expiration date. From a credit risk perspective, which is the *least* attractive way to terminate the swap?
- A. Sell the swap to a third party.
 - B. Short an offsetting swap with a third party.
 - C. Agree to terminate the swap and receive its market value from the counterparty.
92. A European stock index call option has a strike price of \$1,160 and a time to expiration of 0.25 years. Given a risk-free rate of 4 percent, if the underlying index is trading at \$1,200 and has a multiplier of 1, then the lower bound for the option price is *closest* to:
- A. \$28.29.
 - B. \$40.00.
 - C. \$51.32.
93. Which of these is *best* classified as a forward commitment?
- A. A swap agreement
 - B. A convertible bond
 - C. An asset-backed security
94. A company borrows €15 million from a bank for 1 year at a rate of LIBOR, currently 4.75%, plus 50 basis points. At the same time, the company enters a 1-year, plain vanilla interest rate swap to pay the fixed rate of 5.25% and receive LIBOR. Payments are made on the basis of 180 days in the settlement period. Floating payments are made on the basis of 360 days in a year while fixed payments are made on the basis of 365 days in a year. LIBOR is 5.00% on the first settlement date. The company's total interest expense for the loan and swap for the first settlement period is *closest* to:
- A. €388,400.
 - B. €425,900.
 - C. €444,600.

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.

95. An investor purchases a 3-month put option on a stock with an exercise price of \$35. The risk free rate is 4.50%. At expiration, the stock price is \$33.50. The option's payoff is *closest* to:
- A. \$0.
B. \$1.48.
C. \$1.50.
96. The following information relates to a futures contract:

Initial futures price on Day 0	\$100
Initial margin requirement	\$5
Maintenance margin requirement	\$3
Settlement price on Day 1	\$103
Settlement price on Day 2	\$96
Settlement price on Day 3	\$98

If no funds are withdrawn and margin calls are met at the beginning of the next day, the ending margin account balance on Day 3 for an investor with a short position of 10 contracts is *closest* to:

- A. \$70.
B. \$80.
C. \$100.

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. Which of the following provides the *most* protection to a bondholder?
- A. Call protection.
 - B. Refunding protection.
 - C. Sinking fund protection.
98. Which embedded option is *most* beneficial to a bond issuer?
- A. A conversion privilege.
 - B. A floor on a floating rate bond.
 - C. An accelerated sinking fund provision.
99. The *most* relevant definition for duration is:
- A. a security's price sensitivity to changes in yield.
 - B. the first derivative of the security's price with respect to yield.
 - C. the weighted-average time until receipt of the present value of cash flows.
100. An endowment's fixed income portfolio comprises three bonds whose market values, par values, coupon rates, and durations are given in the following table:

	Bond 1	Bond 2	Bond 3
Market value	\$500,000	\$1,200,000	\$300,000
Par value	\$580,000	\$1,100,000	\$320,000
Coupon rate	11.0%	6.0%	9.0%
Duration	6.2	8.1	2.9

- The portfolio's duration is *closest* to:
- A. 5.73.
 - B. 6.31
 - C. 6.85.
101. Jasper Corporation sold its receivables to a special purpose vehicle, JTL Corporation, created by Jasper for that purpose. If JTL sells securities backed by the receivables, the credit rating associated with those securities will *most likely* be based on the:
- A. creditworthiness of JTL.
 - B. creditworthiness of Jasper.
 - C. collateral and credit enhancement mechanisms used.

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. A bond has a modified duration of 6.5 and convexity of -42.4. If interest rates decrease by 1.0 percent, the percentage change in the value of the bond will be *closest* to:
- A. -6.92%.
 - B. +2.76%.
 - C. +6.08%.
103. An investor is considering the purchase of two bonds. One is a 5% coupon tax-exempt bond that yields 4.5% while the other is a 7% coupon bond that is taxable and yields 6.0%. If the two bonds are alike in all other characteristics, the marginal tax rate that would make the investor indifferent between the two bonds is *closest* to:
- A. 25.0%.
 - B. 28.6%.
 - C. 33.3%.
104. An investor is evaluating a diverse set of bonds from which he will select two issues. The investor's objective is to find bonds with cash flows that will precisely match a known stream of future cash outflows. The pair of bonds *most likely* to meet the investor's objective is a:
- A. putable bond and a callable bond.
 - B. zero-coupon bond and a Treasury strip.
 - C. mortgage-backed-security and an asset-backed security.
105. An analyst has gathered the following information:

Year	3-Year Treasury Rate	Treasury Spot Rate
1	3.75%	3.00%
2	3.75%	3.50%
3	3.75%	4.00%

Based on the arbitrage-free valuation approach, a \$1,000 face value bond that pays a 5 percent annual coupon and matures in 3 years has a current market value *closest* to:

- A. \$1,027.75.
- B. \$1,028.67.
- C. \$1,034.85.

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.

106. All U.S. Treasury coupon strips are:

- A. zero-coupon securities.
- B. issued directly by the U.S. Treasury.
- C. created from pooled coupon payments of U.S. Treasury securities.

107. A moral obligation bond is also known as:

- A. a prerefunded bond.
- B. a general obligation debt.
- C. an appropriation-backed obligation

108. Corporate debt securities that are offered continuously to investors by an agent of the issuer are *best* described as:

- A. range notes.
- B. structured notes.
- C. medium-term notes.

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 109 through 114 relate to Alternative Investments.

109. Which classification of hedge funds is *least likely* to use a short position in stock as a part of its strategy?
- A. Market-neutral funds.
 - B. Emerging-market funds.
 - C. Distressed securities funds.
110. When comparing investing in exchanged traded funds (ETFs) to investing in open-end mutual funds, which of these is *most likely not* an advantage of ETFs?
- A. provide lower exposure to taxes related to capital gains distribution.
 - B. trade throughout the entire trading day at market prices that are continuously updated.
 - C. are a more cost effective way for large institutional investors to invest in less liquid markets.
111. A real estate investment has the following characteristics:

Annual rental income	\$1,800,000
Annual operating expenses	\$1,200,000
Available mortgage rate	6%
Financing percentage	90%
Capitalization Rate	15%
Estimated holding period	5 years
Investor's tax rate	25%

- Based on the income approach, the value of the investment is *closest* to:
- A. \$4,000,000.
 - B. \$5,455,000.
 - C. \$6,133,000.
112. Venture capital investments used to provide capital for companies initiating commercial manufacturing and sales are *most likely* to be considered a form of:
- A. first-stage financing.
 - B. mezzanine financing.
 - C. second-stage financing.

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.

113. An analyst compared the performance of a hedge fund index with the performance of a major stock index over the past eight years. She noted that the hedge fund index (created from a database) had a higher average return, higher standard deviation, and higher Sharpe ratio than the stock index. All the successful funds that have been in the hedge fund database continued to accept new money over the eight-year period. What biases do the risk and return measures in the database *most likely* have? Average return:
- A. and standard deviation are both overstated.
 - B. is overstated and standard deviation is understated.
 - C. is understated and standard deviation is overstated.
114. An analyst estimates that an initial investment of £500,000 in a venture capital project will pay £6 million at the end of five years if the project succeeds and that the probability the project survives to the end of the fifth year is 25 percent. The required rate of return for the project is 19 percent. The expected net present value of the venture capital investment is *closest* to:
- A. £128,000.
 - B. £1,125,000.
 - C. £2,014,000.

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 115 through 120 relate to Portfolio Management.

115. Which of the following statements is *least* accurate? An investor may construct a portfolio located on the capital market line (CML) by:

- A. investing a portion of his capital in the risk-free asset and the balance in a fully diversified portfolio of all equities.
- B. investing a portion of his capital in the risk-free asset and the balance in a fully diversified portfolio of all risky assets.
- C. borrowing capital at the risk-free rate and investing all his capital plus all borrowed capital in a fully diversified portfolio of all risky assets.

116. The *least likely* reason for constructing an investment policy statement is that it:

- A. minimizes the costs of portfolio construction.
- B. helps investors create realistic investment goals.
- C. establishes a performance benchmark to judge manager performance.

117. An analyst gathered the following information about two common stocks:

- Variance of returns for the Libby Company = 15.5
- Variance of returns for the Metromedia Company = 22.3
- Covariance between returns of Libby Company and Metromedia Company = 8.65

The correlation coefficient between returns for the two common stocks is *closest* to:

- A. 0.025.
- B. 0.388.
- C. 0.465.

118. According to the Capital Asset Pricing Model (CAPM), the market portfolio:

- A. includes all risky assets invested in equal amounts.
- B. is exposed to both unsystematic and systematic risk.
- C. is perfectly positively correlated with other portfolios on the CML.

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.

119. An investment strategy that seeks to grow portfolio value over time through capital gains and reinvestment of current income is *most likely* appropriate if the investment objective is:
- A. total return.
 - B. current income.
 - C. capital preservation.
120. The standard deviation of returns for shares of Oakmont Corporation and Sunrise Corporation are 14% and 12% respectively. If the correlation between the two stocks is 0.25, a portfolio consisting of 35% invested in Oakmont and 65% in Sunrise has a standard deviation *closest* to:
- A. 10.2%
 - B. 12.7%
 - C. 35.0%

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.