

# Questions



# 1 CFA I Final Mock Exam: Ethical and Professional Standards

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- 1 **You are a stock broker in Laxitania, a country with no securities laws. Your golfing partner tells you and a rival fund manager of forthcoming takeover bid he is launching. You know your rival will advise his clients to trade on this information, should you?** 18461
- A: Yes, because to fail to do so would be to fail to act in your clients' best interests  
B: Yes, because to fail to do so would be to fail to act in your own best interests  
C: No, because this information relates to a tender offer and you must apply the higher of the local rules or the Code and Standards  
D: No, because this information relates to a tender offer and such a trade would be illegal in Laxitania
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- 2 **You are a fund manager in Laxitania, a country with no securities laws. While changing at your local tennis club you overhear a man you know to be a director of one of the country's biggest mining companies boasting to his friend of the discovery of extensive gold deposits that are shortly to be publicly announced . Should you trade on this information?** 18462
- A: Yes, because to fail to do so would be to fail to act in your clients' best interests  
B: Yes, because to fail to do so would be to fail to act in your own best interests  
C: No, because this information is inside information  
D: No, because this information would be illegal in Laxitania
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- 3 **You are enrolled for the CFA level II exam next sitting. You achieved your level I pass many years ago (in 1987). Which of the following is an unacceptable description of your status for inclusion in investment literature?** 18463
- A: CFA level I pass  
B: CFA level II expected next May  
C: CFA level II candidate  
D: CFA level I pass (1987)
- 
- 4 **Sarah has passed Level I of the CFA examination. She is due to enroll on Level II as soon as the enrollment opens. She prints up and distributes business cards that state her details as 'Sarah Fisher, CFA level II candidate'. Is Sarah in breach of the Code and Standards?** 18464
- A: Yes, because no reference may be made to CFA without been awarded the charter  
B: Yes, because she is not a candidate for level II until formally enrolled  
C: No, because she intends to enroll as soon as possible  
D: No, because a person is deemed to be a candidate from the moment they pass level I
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- 5 **You are a sell side research analyst. You produce a report recommending a stock based on work done by your colleague, Jane and by a model developed by Professor Smith at the University of Dementia, Virginia. You have tweaked the model and believe it would not have produced the results it did but for the tweaks. Your report goes out solely in your name, have you violated the standard against plagiarism?** 18465
- A: No because the model was tweaked  
B: Yes in respect of Professor Smith's work but no in respect of Jane's work  
C: Yes in respect of Professor Smith's work and yes in respect of Jane's work  
D: Yes in respect of Jane's work but no in respect of Professor Smith's work

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- 6** You are a sell side research analyst. You produce a report recommending a stock based on work done by your colleague, Jane and by data collected in a year long research study into behavioral dynamics by Professor Smith at the University of Dementia, Virginia. You have tweaked the model and believe it would not have produced the results it did but for the tweaks. Your report goes out solely in your name, acknowledging that data was provided by ' a leading research establishment'. Have you violated the standard against plagiarism? 18466
- A: Yes in respect of Professor Smith's work but no in respect of Jane's work  
B: No in respect of Professor Smith's work and yes in respect of Jane's work  
C: Yes in respect of Professor Smith's work and yes in respect of Jane's work  
D: Yes in respect of Jane's work but no in respect of Professor Smith's work
- 
- 7** An AIMR member lives in Strictitania (a country with strict securities laws) and has an office in Laxitania (a country with lax securities laws). If the laws of Strictitania say that professional conduct is governed by the country in which the investment business is conducted which rules apply to the member? 18467
- A: The laws of Strictitania  
B: The Code and Standards  
C: The laws of Laxitania  
D: The rules of choice
- 
- 8** According to AIMR Code of Ethics members must act with integrity, competence, dignity and in an ethical manner when dealing with: 18468
- A: Regulatory bodies  
B: Exchanges  
C: Public and clients only  
D: Public and clients
- 
- 9** Members of the Association for Investment Management and Research shall: 18469
- A: Act with due diligence, professionalism and in a responsible manner  
B: Practice and encourage others to practice in as efficient a manner as possible  
C: Strive to maintain and improve their client wealth  
D: Use reasonable care and exercise independent professional judgment
- 
- 10** Conrad is due to leave his current employment as a stockbroker in order to set up his own business. Whenever he talks to clients he signs off by telling them that he will shortly be leaving the firm, and that he will be unable to talk about his new venture until after his resignation becomes effective. Has Conrad violated the Code and Standards? 18471
- A: Yes, by mentioning the fact he was leaving  
B: Yes, by entering into a business in competition with his current employer  
C: No, as he has done nothing to induce the clients  
D: No, as an employee is permitted to talk freely with clients in the time between tendering of resignation and it becoming effective

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- 11 **Paulo Sanderson CFA has marketed heavily a new analytical model that has been developed by his colleagues at Random Risk Management Inc. When marketing the model he does not explicitly mention the fact that he did not develop the model but does demonstrate its use to best advantage. A client who uses a similar model provided by a rival company incurs large losses and blames the losses on alleged faults in the rival model. At the subsequent court case Sanderson gives expert witness testimony on his model's strengths, without alluding specifically to the fact that he did not develop the model. Has he violated the standard against plagiarism?** 18477
- A: Yes in respect of the client discussions but no in respect of the court case as he was not asked a direct question  
B: No in respect of the client discussions but yes in respect of the court case  
C: No in respect of the client discussions and no in respect of the court case  
D: Yes in respect of client discussions and yes in respect of the court case
- 
- 12 **You are a sell side analyst at a major investment bank. You strongly believe that a current full service client of the bank, Company X will announce a profits warning in the next few weeks. You wish to issue a sell note but your senior advises you to talk to the corporate finance MD responsible for managing the relationship with that client before you do. The relationship manager warns you that release of a sell note will result in the loss of \$10m of fees for the bank this year and that you will almost certainly be fired. What is your best course of action?** 18478
- A: Release the sell note so as to affirm your professional integrity  
B: Review your opinion and change your outlook to neutral  
C: Resign, and recommend to your colleagues that they resign too in the face of unconscionable pressure  
D: Remove Company X from the research universe and place on a restricted list, providing only factual information about the company
- 
- 13 **Jones has recently become a candidate for the level I examination. She is aware that many others in her firm have also taken the examination. Which of the following best describes her duty with respect to informing her employer of her obligations under the Code and Standards?** 18479
- A: She should tell her immediate supervisor of her obligation to conform to the Code and Standards  
B: She should inform her immediate supervisor of her obligation to conform to the Code and Standards in writing  
C: She should inform the managing director of her obligation to conform to the Code and Standards in writing  
D: She has no obligation as other colleagues would have informed the employer previously
- 
- 14 **Zoltan, an investment adviser currently runs an independent practice with a steady stream of work provided by several wealthy clients. Zoltan is considering an offer from a friend to go in house, the friend is aware of his existing business but thinks that Zoltan would make a valuable addition to his investment team. If Zoltan is to maintain his own business as well as being employed then which of the following best describes his course of action?** 18480
- A: Obtain the written consent of his new employer to retain his old business and disclose in writing to each of his clients his new employment  
B: Obtain the written consent of his clients to retain his old business and disclose in writing to his new employer  
C: Obtain the verbal consent of his clients to retain his old business and disclose in writing to his new employer  
D: Obtain the written consent of his clients to retain his old business and disclose verbally to his new employer

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- 15 **Sally's company imposes trading restrictions on employees forbidding them from entering into any equity purchases of US listed securities. Sally believes that this is an unfair restriction on her right to trade and decides to buy a single share in Microsoft, not for personal profit but to make an ethical stand. Has Sally violated her duty towards her employer?** 18481
- A: No, because the purchase was small  
B: No, because the purchase was justified on ethical grounds  
C: Yes, because she could still make a profit  
D: Yes, because she has no right to unilaterally disapply a trading restriction just because she feels it unjust
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- 16 **Robert Smith CFA is a corporate financier and a non-executive director of Groceries Inc. His family receives free groceries from Groceries Inc as part of his compensation package. Smith discloses his non-executive salary to his employer but not the groceries as he considers them a private matter. Has he breached his obligation to his employer?** 18482
- A: No, as the groceries have no cash equivalent  
B: No, as he merely needs to disclose that he receives compensation, not specifics  
C: Yes, as he must not receive any outside compensation  
D: Yes as he should disclose all compensation from outside sources
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- 17 **Dan Wright, an equity analyst conducts extensive research into Zenon Corp and is convinced the stock is a strong buy. He is due to release the research the next day, certain of the accuracy of his advice. Whilst enjoying a celebratory dinner at his favourite restaurant he notices a rival analyst sitting at a nearby table. He drops his fork and crawls around on the floor so that he can get closer to his table to hear what is being said. The rival analyst is boasting to his friend that only he has called Zenon Corp correctly, that the company is in real trouble and will most likely be in liquidation before the end of the year. Dan runs back to the office and changes his note to a sell. Has he breached the code and standards?** 18492
- A: Yes, because the information is non-public and price sensitive and his actions amount to insider dealing  
B: Yes, because he has misappropriated non-public information  
C: No, because his decision to change his mind is adequately justified  
D: Yes, because he does not have a sound basis for his new opinion
- 
- 18 **Dan Wright, an equity analyst conducts extensive research into Zenon Corp and is convinced the stock is a strong buy. He is due to release the research the next day, certain of the accuracy of his advice. Whilst enjoying a celebratory dinner at his favourite restaurant he notices a director of Zenon Corp sitting at a nearby table. He drops his fork and crawls around on the floor so that he can get closer to his table to hear what is being said. The Director is confiding to his friend that the company is in real trouble and will most likely be in liquidation before the end of the year. Dan runs back to the office and changes his note to a sell. Is Dan likely to have breached the code and standards?** 18493
- A: Yes, because the information is non-public and price sensitive and his actions amount to insider dealing  
B: Yes, because he has misappropriated non-public information  
C: No, because his decision to change his mind is adequately justified  
D: Yes, because he does not have a sound basis for his new opinion

## 2 CFA I Final Mock Exam: Quantitative Methods

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- 19 John has just performed a hypothesis test and has calculated the p-value to be 0.13, which of the following is most likely to be true?** 17932
- A: Do not reject the null hypothesis at the 10% significance level, and do not reject the null hypothesis at the 5% significance level.  
B: Do not reject the null hypothesis at the 10% significance level, and reject the null hypothesis at the 5% significance level.  
C: Reject the null hypothesis at the 10% significance level, and do not reject the null hypothesis at the 5% significance level.  
D: Reject the null hypothesis at the 10% significance level, and reject the null hypothesis at the 5% significance level.
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- 20 In a histogram the vertical axis is most likely to display which of the following?** 17933
- A: The class width of each interval  
B: The midpoint of each class  
C: The frequency of each class  
D: None of the above
- 
- 21 If A and B are independent events, and the probability of A is 0.5 and the probability of B is 0.7. Which of the following is most likely to be the probability of A and B both happening and the probability of A happening but not B happening?** 17934
- A: 1.2 and 0.35 respectively  
B: 0.15 and 0.35 respectively  
C: 0.35 and 0.15 respectively  
D: 0.15 and 0.8 respectively
- 
- 22 If John tosses a two sided coin 6 times, which of the following is closest to the probability of obtaining exactly three heads?** 17935
- A: 0.02  
B: 0.16  
C: 0.31  
D: 1.88
- 
- 23 Which of the following is least likely to be true for a positively skewed distribution?** 17936
- A: The mode will be greater than the median and the mean will be greater than the median.  
B: The mean will be greater than the median and the mean will be greater than the mode.  
C: The mean will be greater than the median and the median will be greater than the mode.  
D: The median will be greater than the mode and the mean will be greater than the mode.

- 24 **Brad rolls a dice, event A is the event that the number on the top of the face is a 2 or 3, whilst event B is the event that the number on the top face is a 4 or 5. Which of the following is most likely to be true?** 17937
- A: With one roll of the dice events A and B are mutually exclusive and with two rolls of the dice events A and B are independent  
B: With one roll of the dice events A and B are not mutually exclusive and with two rolls of the dice events A and B are independent  
C: With one roll of the dice events A and B are mutually exclusive and with two rolls of the dice events A and B are not independent  
D: With one roll of the dice events A and B are not mutually exclusive and with two rolls of the dice events A and B are not independent
- 
- 25 **Which of the following best describes a type II error?** 17938
- A: Incorrectly rejecting the null hypothesis when it is correct.  
B: Incorrectly rejecting the alternative hypothesis when it is correct.  
C: Failing to reject the null hypothesis when it is correct.  
D: Failing to reject the null hypothesis when it is incorrect.
- 
- 26 **In testing the significance of the correlation coefficient of 0.4, assuming that there are 90 observations, which of the following is most likely to be true?** 17939
- A: A t-statistic of 5.09 and 88 degrees of freedom  
B: A t-statistic of 5.09 and 89 degrees of freedom  
C: A t-statistic of 4.09 and 88 degrees of freedom  
D: A t-statistic of 4.09 and 89 degrees of freedom
- 
- 27 **If the covariance between two variables A and B is 20.36, and the standard deviation of A is 4.23 and the standard deviation of B is 5.23, then which of the following is most likely to be true?** 17940
- A: The variance of B is less than 50% bigger than that of A, and the correlation coefficient is 0.92  
B: The variance of B is more than 50% bigger than that of A, and the correlation coefficient is 0.92  
C: The variance of B is less than 50% bigger than that of A, and the correlation coefficient is 1.09  
D: The variance of B is more than 50% bigger than that of A, and the correlation coefficient is 1.09
- 
- 28 **If the correlation coefficient between two variables is -0.7, which of the following is likely to be true?** 17941
- A: The variables move in the same direction and the coefficient of determination is -0.49  
B: The variables move in the opposite direction and the coefficient of determination is -0.49  
C: The variables move in the same direction and the coefficient of determination is 0.49  
D: The variables move in the opposite direction and the coefficient of determination is 0.49
- 
- 29 **Bart analyses City Inc. City Inc is waiting on a government approval, Bart believes that there is a 50% chance of approval, a 40% chance of non-approval and a 10% chance that they will refer the decision to a specialist agency body.** 17942
- If the approval is granted the share price is expected to increase by 12%, if the decision is referred then the share price is expected to increase by 1%, and if approval is not granted then the share price will fall by 5%. Which of the following is closest to expected return on the shares and the standard deviation of the expected earnings per share?**
- A: 4.1% and 10.8% respectively  
B: 5.1% and 10.8% respectively  
C: 4.1% and 8.08% respectively  
D: 5.1% and 8.08% respectively

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**30 Which of the following is least likely to be a limitation of regression analysis?**

17943

- A: Correlations can change over time
- B: Once a regression relationship becomes well-known, it loses its effectiveness
- C: Regression relations can change over time
- D: Slope coefficients can be negative

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**31 Which of the following is least likely to be required in order to perform an F-test?**

17944

- A: The sum of the squared errors
- B: The total number of observations
- C: The mean regression sum
- D: The total number of parameters to be estimated

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**32 Which of the following best describe observations that significantly reduce what would otherwise be a high correlation?**

17945

- A: Outliers
- B: Non-linear relations
- C: Independent variables
- D: Spurious correlations



# 3 CFA I Final Mock Exam: Economics

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- 33 According to the classical view of fiscal policy, a decrease in aggregate demand will be followed by:** 18220
- A: A rise in prices, and an increase in aggregate supply so that GDP (measured by quantity) is maintained at the same level
  - B: A fall in prices, and an increase in aggregate supply so that GDP (measured by quantity) is maintained at the same level
  - C: A fall in prices, and an increase in aggregate supply so that GDP (measured by quantity) is permanently maintained at a lower level
  - D: A fall in prices, and a decrease in aggregate supply so that GDP (measured by quantity) is maintained at the same level
- 
- 34 In an economic downturn countercyclical fiscal policy advocates which of the following changes to spending and taxation respectively?** 18222
- A: Decrease, increase
  - B: Increase, decrease
  - C: Increase, increase
  - D: Decrease, decrease
- 
- 35 Which of the following is least likely to be a neo-classical view of discretionary fiscal policy?** 18224
- A: Budget deficits will not stimulate aggregate demand
  - B: Households will maintain consumption at the same level even if taxes increase
  - C: Households will anticipate increased government debt by saving more, maintaining constant expenditure
  - D: Only decreases in taxes can stimulate aggregate demand
- 
- 36 If reserve requirements are 10% how much must a bank be required to keep on reserve if it has \$2,000,000 of deposits and \$1,000,000 of loans?** 18226
- A: \$200,000
  - B: \$100,000
  - C: Nil
  - D: \$1,000,000
- 
- 37 The actual deposit multiplier tends to be lower than the theoretical multiplier because:** 18228
- A: People can borrow and deposit across several banks
  - B: Not all money is spent
  - C: Banks may keep less in reserve than they have to
  - D: Not all money is spent or deposited in bank accounts
- 
- 38 Which of the following is least likely to be a potential problem in the meaning and measurement of the money supply?** 18229
- A: US currency outside the US
  - B: Increasing availability of low fee stock and bond mutual funds
  - C: Debit cards and electronic money enabling transfers without cash
  - D: Lack of co-operation amongst the 12 banks of the Federal Reserve

- 
- 39 In the short run the effect of expansionary monetary policy if unanticipated on inflation and the real interest rate respectively is:** 18230
- A: Decrease, increase
  - B: Increase, decrease
  - C: Increase, increase
  - D: Decrease, decrease
- 
- 40 Applying the theory of rational expectations in the short run the effect of expansionary monetary policy on inflation and the real interest rate respectively is:** 18232
- A: Decrease, no change
  - B: Increase, decrease
  - C: Increase, no change
  - D: Decrease, decrease
- 
- 41 Which of the following best describes the long run effect of a shift to a more expansionary policy under adaptive expectations to prices and output respectively?** 18234
- A: Higher, lower
  - B: Lower, same
  - C: Higher, same
  - D: Lower, higher
- 
- 42 Later interpretations of the Phillip's curve suggested that:** 18236
- A: There was no trade off between inflation and unemployment
  - B: There was a trade off between inflation and unemployment
  - C: Restrictive fiscal policy leads to crowding out
  - D: Unemployment did not matter to policy makers
- 
- 43 The downward slope of the indifference curve is caused by:** 18288
- A: Complementary goods
  - B: Elasticity
  - C: Inelasticity
  - D: Substitute goods
- 
- 44 A market exhibiting signs of perfect competition is characterized by:** 18290
- A: A large number of firms producing identical products with high barriers to entry
  - B: A small number of firms producing identical products with high barriers to entry
  - C: A large number of firms producing identical products with low barriers to entry
  - D: A large number of firms producing different products with low barriers to entry

# 4 CFA I Final Mock Exam: Financial Statements and Corporate Finance

45 A company has the following results and information for the year:  
 Net income \$100,000  
 Average common stock outstanding 200,000  
 Cumulative preference stock, 40,000 6% \$1 nominal  
 No preference dividends were paid this year. What is the basic EPS?

17996

- A: 50c
- B: 48.8c
- C: \$5
- D: \$4.88

46 A company has the following results and information for the year:  
 Net income \$150,000  
 Average common stock outstanding 200,000  
 Cumulative preference stock, 40,000 6% \$1 nominal  
 1000 x 5% \$200 nominal convertible bond (each bond convertible into 2 common stock)  
 No preference dividends were paid this year. What is the basic and diluted EPS? (Assume tax at 40%)

17997

- A: Basic \$0.7380  
Diluted \$0.7802
- B: Basic \$0.7380  
Diluted \$0.7604
- C: Basic \$0.7380  
Diluted \$0.7380
- D: Basic \$0.75  
Diluted \$0.75

47 A company has the following results for the years ended 2002 and 2003. Which of the following is true?

17998

	2002	2003
Net profit margin	10%	12%
Asset turnover	2	1.5
Leverage multiplier	1.5	1.2

- A: ROE rose in 2003 due to increased net profit margins
- B: ROE fell in 2003 due to increased net profit margins
- C: ROE fell in 2003 due to decreased asset turnover and leverage
- D: ROE rose in 2003 due to decreased asset turnover and leverage

48 A company has published results for the years ended 2002 and 2003. Which of the following is true?

17999

	2002	2003
Net profit margin	5%	12%
Asset turnover	2	1.5
Leverage multiplier	1.5	1.2

- A: ROE rose in 2003 due to increased net profit margins
- B: ROE fell in 2003 due to increased net profit margins
- C: ROE fell in 2003 due to decreased asset turnover and leverage
- D: ROE rose in 2003 due to decreased asset turnover and leverage

49 A company has published results for the years ended 2002 and 2003. Which of the following is true?

18000

	2002	2003
Operating margin	15%	16%
Asset turnover	1.2	1.2
Interest expense rate	10%	11%
Leverage multiplier	1.4	1.5
Tax retention rate	.7	.7

- A: ROE rose in 2003 due to increased profit margins and leverage
- B: ROE fell in 2003 due to increased net profit margins
- C: ROE fell in 2003 due to decreased asset turnover and leverage
- D: ROE rose in 2003 due to decreased asset turnover and leverage

**50 A company has published results for the years ended 2002 and 2003. Which of the following is true?**

18001

	2002	2003
Operating margin	15%	16%
Asset turnover	1.2	1.2
Interest expense rate	10%	13%
Leverage multiplier	1.4	1.5
Tax retention rate	.7	.7

- A: ROE rose in 2003 due to increased profit margins and leverage
- B: ROE fell in 2003 due to increased net profit margins
- C: ROE fell in 2003 due to over leverage
- D: ROE rose in 2003 due to decreased asset turnover and leverage

**51 A company has published results for the years ended 2002 and 2003. Which of the following is true?**

18002

	2002	2003
Operating margin	13%	16%
Asset turnover	1.3	1.2
Interest expense rate	11%	11%
Leverage multiplier	1.4	1.2
Tax retention rate	.7	.7

- A: ROE rose in 2003 due to increased profit margins and leverage
- B: ROE fell in 2003 due to increased net profit margins
- C: ROE fell in 2003 due to over leverage
- D: ROE rose in 2003 due to increased profit margins

**52 A company has the following information for the years 2002 and 2003. From 2002 to 2003 which of the following is true?**

\$000	2002	2003
Sales	1,000	2,300
COGS	400	1,500
Average receivables	150	370
Average inventory	200	420
Average trade payables	150	240

- A: Cash conversion cycle increased  
Inventory turnover decreased
- B: Cash conversion cycle decreased  
Inventory turnover decreased
- C: Cash conversion cycle decreased  
Inventory turnover increased
- D: Cash conversion cycle increased  
Inventory turnover increased

**53 A company has the following information for the years 2002 and 2003. From 2002 to 2003 which of the following is true?**

\$000	2002	2003
Sales	2,000	1,800
COGS	600	1,500
Average receivables	250	170
Average inventory	300	220
Average trade payables	250	240

- A: Cash conversion cycle increased  
Inventory turnover decreased
- B: Cash conversion cycle decreased  
Inventory turnover decreased
- C: Cash conversion cycle decreased  
Inventory turnover increased
- D: Cash conversion cycle increased  
Inventory turnover increased

**54 A company has the following information for the years 2002 and 2003. From 2002 to 2003 which of the following is true?**

18014

\$000	2002	2003
Sales	1,000	1,800
COGS	550	1,500
Average receivables	150	180
Average inventory	200	220
Average trade payables	250	240

- A: Cash conversion cycle increased  
Receivables processing decreased
- B: Cash conversion cycle decreased  
Receivables processing decreased
- C: Cash conversion cycle decreased  
Receivables processing increased
- D: Cash conversion cycle increased  
Receivables processing increased

**55 The installment sales method of revenue recognition recognizes revenues and associated costs on the basis of:**

18015

- A: Revenue earned and costs paid
- B: Revenue earned as payments received and costs as a proportion of receipts to total amount to be billed
- C: Payments received as a proportion of total costs incurred
- D: Revenue earned as a proportion of total costs

**56 If a company switches from straight line to reducing balance depreciation for all of its existing assets, catch up adjustments are shown as:**

18016

- A: Exceptionals
- B: Extraordinary items
- C: Not disclosed separately
- D: Accounting change, below the line

**57 Timing expenditures like asset disposals, and R&D is an example of:**

18017

- A: Income smoothing
- B: Intertemporal smoothing
- C: Big bath accounting
- D: Acceptable practice

**58 Compared to the completed contract method, the percentage of completion method has what effect on earnings volatility and liabilities respectively?**

18018

- A: Higher, lower
- B: Lower, higher
- C: Lower, lower
- D: Higher, higher

- 
- 59 Compared to the completed contract method, the percentage of completion method has what effect on cash flows and liabilities to equity respectively?** 18019
- A: Higher, lower  
B: Same, higher  
C: Same, lower  
D: Higher, higher
- 
- 60 Applying the completed contract method, how are cash receipts and cash expenditures reported respectively?** 18021
- A: Customer advances and cost of sales  
B: Inventory and cost of sales  
C: Customer advances and inventory  
D: Inventory and customer advances
- 
- 61 Investing cash flow covers:** 18022
- A: Payments to acquire fixed assets and income receipts from those assets  
B: Payments to acquire fixed assets and disposal receipts from the sale of such assets  
C: Payments to acquire fixed assets and entire businesses and income receipts from those assets  
D: Payments to acquire fixed assets and entire businesses and disposal receipts from the sale of such assets
- 
- 62 CFO measures:** 18023
- A: Capital structure changes  
B: Investments in fixed assets  
C: Cash generated as a result of its production, excluding income from investments  
D: Cash generated as a result of its production, including income from investments
- 
- 63 Payments to reduce notes payable are counted as:** 18024
- A: CFO  
B: CFF inflow  
C: CFF outflow  
D: Non-cash
- 
- 64 If last year's Plant and equipment balance was \$98,000, this year's ending balance is \$105,000, an asset that cost \$10,000 and had accumulated depreciation of \$8,000 was sold for \$3,000 and depreciation for the year is \$10,000, how much was spent on purchases this year?** 18025
- A: \$20,000  
B: \$19,000  
C: \$7,000  
D: \$25,000
- 
- 65 If last year's Plant and equipment balance was \$108,000, this year's ending balance is \$105,000, an asset that cost \$10,000 and had accumulated depreciation of \$6,000 was sold for \$3,000 and depreciation for the year is \$10,000, how much was spent on purchases or disposals this year?** 18026
- A: \$11,000 disposal  
B: \$15,000 purchase  
C: \$11,000 purchase  
D: \$17,000 disposal



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- 66** A company has a current ratio of 1.5. Cash is used to pay off accounts payable. What happens to the ratio? 18029
- A: Decreases  
B: Increases  
C: Stays the same  
D: Cannot be determined
- 
- 67** A company has a current ratio of 0.5. Cash is used to pay off accounts payable. What happens to the ratio? 18030
- A: Decreases  
B: Increases  
C: Stays the same  
D: Cannot be determined
- 
- 68** Given the following information, calculate the cash conversion cycle: 18031  
Inventory turnover = 12  
Receivables turnover = 8  
Payables turnover = 9
- A: 116.6  
B: 35.4  
C: 11  
D: 29
- 
- 69** Zeta plc has 200,000 shares outstanding on 1 July and issues a 10% stock dividend on 1 August. On 31 March 50,000 more shares are issued. On 1 April 10,000 shares are repurchased. What is the weighted average common stock for the year to 30 June? 18032
- A: 240,000  
B: 227,500  
C: 235,000  
D: 230,000

70 Based solely on the following information, Cash flow from operations and Cash flow from investing are respectively:

Bond coupon payments	\$2,000
Bond interest expense	\$2,500
Profits on disposal of land	\$4,000
Proceeds of land disposal	\$10,000
Dividend receipts	\$200
Payment of salaries	\$8,000
Cash sales collected	\$15,000
New shares issued	\$2,000
Dividend payments	\$3,500
Receivables collected	\$4,000

- A: \$9,200 inflow, \$4,000 inflow  
 B: \$9,200 inflow, \$10,000 inflow  
 C: \$9,000 inflow, \$10,000 inflow  
 D: \$9,000 inflow, \$4,000 inflow

**71 Based solely on the following information, Cash flow from operations and Cash flow from financing are respectively:**

Bond coupon payments	\$1,000
Bond interest expense	\$2,500
Losses on disposal of land	\$4,000
Proceeds of land disposal	\$10,000
Dividend receipts	\$200
Payment of salaries	\$7,000
Cash sales collected	\$14,000
New debt issued	\$2,000
Dividend payments	\$3,500
Payment to suppliers	\$4,000

- A: \$1,300 outflow, \$2,000 inflow  
 B: \$2,000 outflow, \$2,000 inflow  
 C: \$1,500 outflow, \$2,200 inflow  
 D: \$2,200 inflow, \$1,500 outflow

**72 Which of the following is preferable for the analysis of balance sheet inventories and income statement costs respectively:**

18039

- A: LIFO, FIFO  
 B: FIFO, LIFO  
 C: FIFO, FIFO  
 D: LIFO, LIFO

**73 When comparing FIFO to LIFO, in periods of rising prices and stable inventory levels, LIFO will result in which of the following effects to cost of goods sold and net income respectively?**

18040

- A: Lower, higher  
 B: Higher, lower  
 C: Higher, higher  
 D: Lower, lower

**74 When comparing FIFO to LIFO, in periods of rising prices and decreasing inventory levels, LIFO will result in which of the following effects to cost of goods sold and net income respectively?**

18041

- A: Lower, higher  
 B: Higher, lower  
 C: Higher, higher  
 D: Lower, lower

---

**75** If LIFO is used rather than FIFO then the impact on cash flows and working capital is most likely to be what, respectively: 18042

- A: Lower, lower
- B: Higher, higher
- C: Lower, higher
- D: Higher, lower

---

**76** To calculate FIFO COGS from LIFO COGS an analyst should: 18043

- A: Add the ending LIFO reserve to the LIFO COGS
- B: Subtract the ending LIFO reserve to the LIFO COGS
- C: Subtract the increase in the LIFO reserve from the LIFO COGS
- D: Add the increase in the LIFO reserve from the LIFO COGS

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**77** A firm overstates beginning inventory by \$2,000 and understates ending inventory by \$2,000. If the tax rate is 40%, what will be the effect on gross profit and net income respectively 18044

- A: \$4,000 understated, \$4,000 understated
- B: \$4,000 understated, \$2,400 understated
- C: \$ nil, \$nil
- D: \$4,000 overstated, \$4,000 overstated

---

**78** Firms that expense costs rather than capitalizing them will see which of the following impacts to income and cash flow from investing respectively? 18045

- A: Less variable, lower
- B: More variable, higher
- C: Less variable, higher
- D: More variable, lower

# 5 CFA I Final Mock Exam: Portfolio Management

- 
- 79** Which of the following is most likely to be the correct order in implementing the four-step portfolio management process? 18582
- A: Develop an investment strategy  
Write the policy statement  
Implement the plan  
Monitor and update the strategy
- B: Write the policy statement  
Develop an investment strategy  
Monitor and update the strategy  
Implement the plan
- C: Write the policy statement  
Develop an investment strategy  
Implement the plan  
Monitor and update the strategy
- D: Develop an investment strategy  
Implement the plan  
Write the policy statement  
Monitor and update the strategy
- 
- 80** Which of the following is the best description of the decision that a manager makes when they decide which specific securities will be purchased for the portfolio? 18585
- A: Timing
- B: Policy
- C: Selection
- D: Endowment
- 
- 81** Which of the following portfolios is most likely to lie below the Markowitz efficient frontier? 18593
- A: Expected return of 8% and standard deviation of 12%
- B: Expected return of 7% and standard deviation of 13%
- C: Expected return of 9% and standard deviation of 15%
- D: Expected return of 10% and standard deviation of 18%
- 
- 82** The risk free rate of return is 3%, the market rate of return is 15% and the beta of stock X is 1.4. What is the expected rate of return on stock X, and if the market expects a rate of return of 17%, is the stock over or under priced? 18598
- A: 24% and underpriced
- B: 24% and overpriced
- C: 19.8% and underpriced
- D: 19.8% and overpriced
- 
- 83** If an investor puts 70% of his funds in an asset that has a return of 12% and risk of 18%, and the remainder in an asset that generates a return of 6% and has a risk of 7%, given the correlation between the two investments is 0.61, what is the overall risk and return that the investor is exposed to? 18601
- A: 10.2% and 13.98% respectively
- B: 13.98% and 10.2% respectively
- C: 10.2% and 15.02% respectively
- D: 15.02% and 13.98% respectively

---

**84 Which of the following best describes the difference between the CAPM and APT models?**

18602

- A: CAPM is a multifactor model whereas APT is a single factor model
- B: APT is a multifactor model whereas CAPM is a single factor model
- C: APT requires that security returns are normally distributed, whereas CAPM does not
- D: APT has more assumptions than CAPM

# 6 CFA I Final Mock Exam: Asset Valuation

- 
- 85 The maximum potential loss which could be incurred by the holder of a put option is:** 68
- A: Unlimited
  - B: The exercise price plus the premium
  - C: The premium for the option
  - D: The exercise price minus the premium
- 
- 86 An investor holding equities believes share prices will rise but wants protection in case the market falls. What is the most suitable option position?** 151
- A: Purchase a call option
  - B: Write a call option
  - C: Purchase a put option
  - D: Write a put option
- 
- 87 Which of the following is true of a call option?** 156
- A: The writer pays a premium to the holder
  - B: It can be used to hedge a short underlying position
  - C: The holder of a call has unlimited downside potential
  - D: The writer can only lose the premium
- 
- 88 A writer of a put option on a security:** 210
- A: Hopes the underlying price will fall
  - B: Has the right to sell the security
  - C: May be forced to sell the security
  - D: May be obliged to buy the security
- 
- 89 Which of the following is true of a European call option?** 2375
- A: The buyer has the right to buy the underlying up to the maturity date
  - B: The seller may be obliged to sell the underlying only at maturity
  - C: The seller is obliged to buy the underlying only at maturity
  - D: The buyer will exercise his option when it is in-the-money
- 
- 90 Which of the following would be described as a European style option?** 2948
- A: One that is traded only on European exchanges
  - B: An option that is cash settled
  - C: An option to buy or sell an asset on a particular date
  - D: An option to buy or sell European securities
- 
- 91 A long put option position has potential for:** 3042
- A: Unlimited profit and unlimited loss
  - B: Limited profit and limited loss
  - C: Unlimited profit and limited loss
  - D: Profit limited to strike price plus premium

- 
- 92 Which of the following illustrates an out-the-money option?** 3046
- A: A put option with a strike price below the current price of the underlying security
  - B: A put option with a strike price above the current price of the underlying security
  - C: A call option with a strike price below the current price of the underlying security
  - D: An American style option traded on European exchanges
- 
- 93 Which of the following best describes an American option?** 5311
- A: An option exercisable at any time up to its expiry date
  - B: An option on a US stock or bond
  - C: An option exercised only at expiry
  - D: An option traded on US exchanges
- 
- 94 Which of the following is true about the money (or 'dollar') weighted rate of return?** 6248
- A: It represents the internal rate of return of the portfolio
  - B: It is not affected by the timing of the cash flows into the fund
  - C: It cannot be calculated if withdrawals are made
  - D: It uses the beta of the portfolio to measure risk
- 
- 95 The time weighted return** 6316
- A: Will equal the money weighted return when there are only inflows to the fund
  - B: Gives equal weighting to the return in each period
  - C: Will equal the money weighted return when there are only outflows from the fund
  - D: Gives the total rate of return when there are only inflows to the fund
- 
- 96 Certain exchanges allow exchange for physicals (EFP) on some of their contracts. Which of the following would NOT be a use for EFPs?** 17082
- A: To swap one futures position of another
  - B: To swap a position in the cash for a position in the future
  - C: For two parties to establish opposite positions with each other in the cash and futures market
  - D: For two parties to avoid the requirement of having to deliver standardised grades
- 
- 97 A stock is expected to start paying dividends in 3 years. The dividend is expected to be \$0.4 that year. If the required rate of return is 12% and the dividend payout ratio is 40% from year 3 onwards, what is the value of the stock. Return on equity is constant at 15%.** 18141
- A: \$13.24
  - B: Cannot be determined
  - C: \$13.33
  - D: \$10.63
- 
- 98 A stock is expected to start paying dividends in 4 years. The dividend is expected to be \$0.5 that year. If the required rate of return is 12% and the retention ratio is 40% from year 4 onwards, what is the value of the stock. Return on equity is constant at 15%.** 18142
- A: 16.67
  - B: \$5.93
  - C: \$11.86
  - D: \$12.21



- 
- 99 A stock has an expected dividend payout ratio of 30%, required return of 12% and a growth rate of 8%. What is the P/E ratio?** 18145
- A: 8.2x  
B: 7.5x  
C: 9.8x  
D: Cannot be determined
- 
- 100 Roxo Inc's sales estimate is \$80 per share, EBITDA is 20% of sales, depreciation is \$3 per share, amortisation \$1 per share, interest expense is \$3 per share and tax is 40%. Calculate EPS.** 18146
- A: \$5.4  
B: \$3.6  
C: \$4.5  
D: \$9
- 
- 101 Which of the following should best be used when forecasting sales per share figures for an entire industry?** 18147
- A: Industry life cycle  
B: Industry life cycle and input-output analysis  
C: Industry economy relationship  
D: All 3
- 
- 102 Which of the following is least likely to be true?** 18148
- A: Price -weighted indices are downward biased due to the effect of stock splits  
B: Value-weighted indices tend to be biased towards price movements of higher priced stocks  
C: Geometric means cause downward bias in an index  
D: Rapidly growing companies tend to split their stocks more frequently than low growth companies
- 
- 103 Tests of the weak-form of the EMH looking have generally indicated that:** 18149
- A: Investors can earn excess returns after costs  
B: Investors cannot earn excess returns after costs  
C: Stock returns are significantly correlated over time  
D: Stock prices are dependent on each other over time
- 
- 104 Which of the following event study tests of the semi-strong form have failed to support the EMH?** 18150
- A: Stock splits  
B: Accounting changes  
C: IPOs  
D: Exchange listings
- 
- 105 How is an executor or administrator most likely to pay the inheritance tax bill?** 18410
- A: By selling assets before probate  
B: From their own funds  
C: They do not need to pay inheritance tax  
D: By borrowing the money
- 
- 106 For which of the following bonds would you have difficulty in estimating the cash flows?** 18429
- A: Callable and puttable  
B: Callable, puttable and asset backed  
C: Callable, puttable, asset backed and mortgage backed  
D: Callable, puttable, asset backed, mortgage backed and convertible

- 
- 107 Consider a 5% bond paying semi-annual coupons. There are 3 coupons remaining. The market rate is 8%. There are 76 days between settlement and the next coupon date and 184 days in the coupon payment period. What is the dirty price of the bond?** 18430
- A: \$95.63  
B: \$98.07  
C: \$102.35  
D: \$104.87
- 
- 108 Consider a 8% bond paying semi-annual coupons. There are 3 coupons remaining. The market rate is 6%. There are 72 days between settlement and the next coupon date and 183 days in the coupon payment period. What is the dirty price of the bond?** 18431
- A: \$99.01  
B: \$98.76  
C: \$104.69  
D: \$105.98
- 
- 109 If an investor holds a bond to maturity they will make a capital gain if:** 18432
- A: The bond is issued below par  
B: The bond is purchased below par  
C: The bond is issued above par  
D: The bond is purchased above par
- 
- 110 Which of the following is not an assumption of the yield to maturity measure?** 18433
- A: All coupons are reinvested at the YTM  
B: The bond is held to maturity  
C: Flat yield curve  
D: Nominal value reinvested at YTM
- 
- 111 Which of the following effects on reinvestment risk will greater maturity and greater coupon rate have respectively?** 18434
- A: Lower, lower  
B: Higher, lower  
C: Lower, higher  
D: Higher, higher
- 
- 112 Which of the following is FALSE of the cash flow yield?** 18435
- A: It is mainly used as a measure for securities with prepayment risk  
B: It is commonly used for mortgage backed and other asset backed securities  
C: It is generally calculated monthly and then annualized as appropriate  
D: It assumes that cash flows are reinvested at the YTM
- 
- 113 Which of the following is true of the discount margin?** 18436
- A: It is calculated as the difference between YTM and the z spread  
B: One shortcoming is that LIBOR remains constant over the life of the security  
C: It is calculated as the difference between YTM and an A rated bond yield  
D: One shortcoming is that LIBOR will change over the life of the security

- 
- 114 The 6 month spot rate is 4%, the 12 month spot rate 4.4%. What is the 6 month forward rate 6 months from now?** 18437
- A: 2%  
B: 4%  
C: 2.4%  
D: 4.8%
- 
- 115 The 12 month spot rate is 4%. The 4 year spot rate is 6%. What is the 3 year forward rate to start in 12 months?** 18438
- A: 3%  
B: 3.33%  
C: 6.67%  
D: 6%
- 
- 116 Which of the following is true concerning callable and puttable bonds respectively. At low yields a bond's convexity is:** 18439
- A: Negative, positive  
B: Negative, negative  
C: Positive, positive  
D: Positive, negative
- 
- 117 At high yields which of the following best describes the price impact of a further increase in yields on a puttable and callable bond respectively?** 18440
- A: Falls at similar rate to an option free, falls more slowly than an option free  
B: Falls at similar rate as an option free, falls faster than an option free  
C: Falls faster than an option free, falls more slowly than an option free  
D: Falls more slowly than an option free, falls at similar rate to option free
- 
- 118 'Effective duration is the same for all puttable bonds, irrespective of yield to maturity, coupon or redemption date. Convexity is a means of correcting for the predictive errors inherent in duration.' Are these statements true or false respectively?** 18441
- A: False, true  
B: True, true  
C: False, false  
D: True, true
- 
- 119 For an option free bond the adjustment to the bond's predicted value using effective duration that considers convexity is always:** 18442
- A: Negative  
B: Positive  
C: Either negative or positive  
D: Uncertain as to its sign
- 
- 120 What effect will an increase in interest rate volatility have on the price of a callable bond and an increase in stock price volatility have on the premium for an equity option respectively?** 20632
- A: Decrease, increase  
B: Increase, decrease  
C: Increase, increase  
D: Decrease, decrease