

MOCK EXAM 1

LEVEL I CFA®



soleadea

There is always one correct answer for each question. You may score 1 point for every correct answer. If your answer is incorrect or you omit a question, you receive 0 points.

Choose Topic:



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1. George, a CFA candidate, works in the City. At a firm luncheon he meets Raoul, one of his colleagues from his previous work and a CFA charterholder. Raoul asks George whether he heard that Cloud Airlines are about to declare its insolvency next week. According to the Code and Standards, George:
 - a. must wait till the next week before he uses the information.
 - b. must not use the information as he has no reasonable basis to use it.
 - c. is permitted to use the information but only for the benefit of his clients and not his own.

2. JJ & Brothers is a family business run by brothers holding the CFA designation. Erik, one of the brothers working on a high managerial position, tells Samantha Fey, the employee of JJ & Brothers and a CFA candidate, to carry out one of some major transactions "the old way". If Samantha does as she is told, she will disregard the current change in law that has just been introduced. When she said that to Erik, he replied that she will most certainly "find the way", and besides it's been just a couple of days since the new regulation is in force and not everybody knows it should apply. She decides to consult Johannes, the senior brother, about the matter. Johannes tells Samantha, to her greatest disappointment, that "Erik is the one to decide about all this". What should Samantha do in this situation?
 - a. Samantha should dissociate from the activity and even consider handing in her resignation in order to comply with Standard I (A).
 - b. Samantha should carry out the transaction the way her employer wants her to, but she should keep it secret so as not to violate Standard I (A).
 - c. Samantha should act the way her employer wants her to because if she does not she will violate Standard IV (A) by not being loyal to her supervisor.

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3. An investor wants to deposit \$435 000 in a bank account. The bank pays a stated annual rate of 15 percent. What is the effective annual rate using continuous compounding?
- a. 15.00 percent
 - b. 16.08 percent
 - c. 16.18 percent

4. Assume that a stock's price at the end of the next two periods is as shown below:

Period	0	1	2
Stock prices	100	120	144
		83.33	100
			69.44

The probability that the stock's prices will go down in a given period is 50%. What is the probability that the stock's price at the end of the second period will be the same as today (period 0)?

- a. 25%
- b. 50%
- c. 75%

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5. The nominal GDP is equal to \$55,240,000 and the real GDP is equal to \$52,040,000. The GDP deflator is closest to:
- 94
 - 100
 - 106
6. Which of the following statements regarding market structures is the least accurate?
- Under imperfect competition, total revenue is a linear function of quantity.
 - Under imperfect competition, the marginal revenue line is below the price line.
 - Under imperfect competition, the marginal revenue line is below the average revenue line.

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7. Fox&Lee Co. depreciates equipment on a straight-line basis at a rate of 12.5 percent per year. Equipment costs incurred amount to \$10 million, and the residual value is equal to \$0. The depreciation for tax purposes equals 14 percent per year. The difference between the carrying amount and tax base in Year 1 is closest to:
- \$125,000
 - \$140,000
 - \$150,000

8. JJ&C, Plc. has entered a three-year construction contract for \$8 million. It is probable that cost will be recovered but given uncertainty of future price of materials, technology and labor outcome cannot be measured reliably. The following table gives information about expenditures related to this construction contract:

	Year 1	Year 2	Year 3
Cash expenditure incurred	\$1.5 million	\$2.5 million	\$2.5 million

What is the revenue that the company will recognize in Year 3 under:

- | | IFRS? | U.S. GAAP? |
|----|---------------|-------------|
| a. | \$2.5 million | \$6 million |
| b. | \$4 million | \$4 million |
| c. | \$4 million | \$8 million |

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9. A project has the following annual cash flow:

Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
-\$25,143	\$30,512	\$30,512	-\$43,500	\$23,681	-\$12,115

Which of the following discount rates most likely produces the highest net present value (NPV)?

- a. 6%
- b. 10%
- c. 15%

10. The annual cost of trade credit assuming a 365-day year for terms 2.5/10 net 35 is closest to:

- a. 30%
- b. 43%
- c. 45%

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11. Which of the following statements is the least accurate?
- a. Cash ratio is one of the solvency ratios.
 - b. A complete company's research report should include analysis of pricing.
 - c. An asset management is an example of fragmented industry with strong pricing power.

12. The table below presents information about the company's stock:

Dividend per share (Year 0)	\$10
Payout ratio	20%
Dividend growth rate (Year 1)	12%
Dividend growth rate (Year 2)	12%
Dividend growth rate (Year 3)	12%

If an investors' required rate of return is 11%, and the value of the company's stock (Year 0) is \$90, what is the dividend growth rate after Year 3 (in your calculations use the two-stage dividend discount model)?

- a. -9.2%
- b. -5.4%
- c. -4.8%

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13. The price of the stock is \$45. The European call option with the exercise price \$42 and the time to expiration 1 year is priced \$6. The annual risk-free rate is equal to 5 percent. Based on put-call parity, the price of the European put option with the exercise price \$42 and the time to expiration 1 year is closest to:
- a. \$1.0
 - b. \$3.0
 - c. \$5.1
14. A dealer quotes a forward rate agreement (FRA) based on 90-day LIBOR at 3.8%. An investor goes long for the contract and the dealer goes short. The notional principal of the contract is \$2 million. At expiration the 90-day LIBOR is 4.3%. The investor is most likely to:
- a. pay the dealer \$1,237.
 - b. receive from the dealer \$1,237.
 - c. receive from the dealer \$2,473.

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15. An investor buys a corporate bond with 5.5-year maturity and \$100 face value. The full price of the bond is \$110.30 and accrued interest is \$5.50. The dirty price of the bond is closest to:
- a. \$104.80
 - b. \$110.30
 - c. \$115.80

16. The table below presents information about 4 bonds:

Bond	Price	Maturity	Duration
A	\$85.25	10-year	7.4
B	\$91.12	7-year	5.4
C	\$98.76	6-year	4.7
D	\$104.25	4-year	3.4

The par value of all bonds is \$100. The duration of the portfolio is closest to:

- a. 5.11
- b. 5.23
- c. 5.69

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17. Which of the following statements is least likely correct?

- a. ETFs are actively managed.
- b. Investors can buy ETFs on margin.
- c. ETFs are less costly for investors than traditional mutual funds.

18. Which of the following biases in hedge fund performance in hedge fund database an investor suffers from when hedge fund managers decide whether they want to be included in databases or not?

- a. Backfilling bias
- b. Survivorship bias
- c. Self-selection bias

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19. An analyst describing different types of risk stated that the market risk and unsystematic risk of the portfolio can be reduced by diversifying the portfolio. The analyst's statement is correct with respect to:
- both.
 - market risk, but incorrect with respect to unsystematic risk.
 - unsystematic risk, but incorrect with respect to market risk.

20. The following table gives information for a company's stock:

Expected return of company's stock	12%
Expected return of market	10%
Covariance between stock and market	0.034
Variance of market return	0.04
Standard deviation of stock's return	0.20

Knowing that a risk-free rate is 5 percent decide, using CAPM, if stock is:

- overvalued.
- undervalued.
- fairly valued.

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