

1. Vishal Chandarana, an unemployed research analyst, recently registered for the CFA Level I exam. After two months of intense interviewing, he accepts a job with a stock brokerage company in a different region of the country. Chandarana posts on a blog how being a CFA candidate really helped him get a job. He also notes how relieved he was when his new employer did not ask him about being fired from his former employer. Which CFA Institute Standards of Professional Conduct did Chandarana *least likely* violate?
 - A. Loyalty to Employers
 - B. Reference to CFA Institute, the CFA Designation, and the CFA Program
 - C. Misconduct

2. David Donnigan enrolled to take the Level II CFA examination in the current year, but he did not take the exam. Donnigan advised his employer that he passed Level II. Subsequently, he registered to take the Level II exam the next year. Which CFA Institute Standards of Professional Conduct did Donnigan *least likely* violate? The standard related to:
 - A. referencing candidacy in the CFA Program.
 - B. duty to employer.
 - C. professional misconduct.

3. 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:
 - A. the press releases only.
 - B. the research report only.
 - C. both the press release and the research report.

4. James Woods, CFA, is a portfolio manager at ABC Securities. Woods has reasonable grounds to believe his colleague, Sandra Clarke, a CFA Level II candidate, is engaged in unethical trading activities that may also be in violation of local securities laws. Woods is not Clarke's supervisor, and her activities do not impact Woods or any of the portfolios for which he is responsible. Based on the Code and Standards, the recommended course of action is for Woods to:
 - A. report Sandra Clarke to ABC's trading supervisor or compliance department.
 - B. not take any action because he is not directly involved.
 - C. report Sandra Clarke to the appropriate governmental or regulatory organization.

5. After a firm presents a minimum required number of years of GIPS- compliant performance, the firm must present an additional year of performance each year, building up to a minimum of:
 - A. 10 years of GIPS-compliant performance.
 - B. 15 years of GIPS-compliant performance.

- C. 5 years of GIPS-compliant performance.
6. 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. decline to accept supervisory responsibility until her firm adopts procedures to allow her to adequately exercise such responsibility.
 - B. require the employees she supervises to adopt the CFA Institute Code of Ethics and Standards of Professional Conduct.
 - C. require her firm to adopt the CFA Institute Code of Ethics and Standards of Professional Conduct.
7. Nicholas Bennett, CFA, is a trader at a stock exchange. Another trader approached Bennett on the floor of the exchange and verbally harassed him about a poorly executed trade. In response, Bennett pushed the trader and knocked him to the ground. After investigating the incident, the exchange cleared Bennett from any wrongdoing. Which of the following *best* describes Bennett's conduct in relation to the CFA Institute Code of Ethics or Standards of Professional Conduct? Bennett:
- A. violated the standard relating to professionalism.
 - B. did not violate any of the Code of Ethics or Standards of Professional Conduct.
 - C. violated both the standard relating to professionalism and integrity of capital markets.
8. 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. personal trading limitations.
 - B. selective disclosure.
 - C. firewalls.
9. During an on-site company visit, Marsha Ward, CFA, accidentally overheard the chief executive officer 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* cannot use the information because:
- A. it was overheard and might be considered unreliable.
 - B. she does not have a reasonable and adequate basis for taking investment action.
 - C. it relates to a tender offer.
10. According to the Global Investment Performance Standards (GIPS), firms must do all of the following *except*:
- A. adhere to certain calculation methodologies and make specific disclosures along with their performance.
 - B. provide investors with a comprehensive view of their performance only in terms of returns.

- C. comply with all requirements of the GIPS standards, such as updates, guidance statements, and clarifications.
11. Adira Badawi, CFA, who owns a research and consulting company, is an independent board member of a leading cement manufacturer in a small local market. Because of Badawi's expertise in the cement industry, a foreign cement manufacturer looking to enter the local market has hired him to undertake a feasibility study. Under what circumstances can Badawi *most likely* undertake the assignment without violating the CFA Institute Code of Ethics and Standards of Professional Conduct?
- A. He makes full disclosure to both companies.
 - B. He signs confidentiality agreements with both companies.
 - C. He receives written permission from the local company.
12. Which of the following is *not* a component of the CFA Institute Code of Ethics?
- A. Promote financial integrity and seek to prevent and punish abuses in the financial markets.
 - B. Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
 - C. Place the integrity of the investment profession and the interests of clients above your own personal interests.
13. According to the Global Investment Performance Standards (GIPS), which of the following is not a part of the verification process? Testing whether the:
- A. firm has complied with all the composite construction requirements.
 - B. verification is undertaken by the compliance department in the absence of a third party.
 - C. firm's processes and procedures are designed to calculate results in compliance with GIPS standards.
14. 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, which 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 the CFA Institute Standards of Professional Conduct?
- A. Both
 - B. Neither
 - C. Peters

15. Claire Jones, CFA, is an analyst following natural gas companies in the United States. At an industry energy conference, the chief financial officer of Alpine Energy states that the company is interested in making strategic acquisitions. At a separate event, Alpine's head of exploration commented that he is bullish on natural gas production prospects within northeastern Pennsylvania. Jones is aware that Alpine currently has very little exposure to this region. She also knows another company in her universe, Pure Energy, Inc. is based in northeastern Pennsylvania and controls significant assets in the area. Pure Energy is highly leveraged, and Jones believes it will need to raise additional capital or partner with another firm to move to the production phase with their assets. Jones attempts to contact Alpine's chief executive officer with an unrelated question and is told he is unavailable because he is on a business trip to northeastern Pennsylvania. Jones updates her research on Pure Energy and then recommends the stock to Lisa Wong, CFA, a portfolio manager, who purchases significant positions in client accounts. The following week, Pure Energy announces it has entered into an agreement to be purchased by Alpine for a significant premium. Has either Jones or Wong *most likely* violated standards with regard to the integrity of capital markets?
- A. Yes, Jones' recommendation is based on insider information
 - B. No
 - C. Yes, both Jones and Wong have acted on insider information
16. Ron Dunder, CFA, is the CIO for Bling Trust (BT), an investment adviser. 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, toward 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. Yes, because he failed to reasonably supervise Chetch.
 - B. Yes, because he did not report his findings to regulatory authorities.
 - C. No.
17. The Global Investment Performance Standards *least likely* require:
- A. nondiscretionary 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.
18. 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. Because his family members have extensive portfolios requiring substantial attention, they have requested that Piedmont provide the services outside of 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, which of the following CFA Institute Standards of Professional Conduct has Piedmont violated?
- A. Conflicts of Interest
 - B. Additional Compensation
 - C. Both Additional Compensation and Conflicts of Interest

19. Monte Carlo simulation is *best* described as:
- A. a restrictive form of scenario analysis.
 - B. providing a distribution of possible solutions to complex functions.
 - C. an approach to backtest data.
20. The belief that trends and patterns tend to repeat themselves and are, therefore, somewhat predictable *best* describes:
- A. arbitrage pricing theory.
 - B. technical analysis.
 - C. weak-form efficiency.
21. Which of the following *most* accurately describes a distribution that is more peaked than normal?
- A. Mesokurtotic
 - B. Platykurtotic
 - C. Leptokurtotic
22. Using the following sample results drawn as 25 paired observations from their underlying distributions, test whether the mean returns of the two portfolios differ from each other at the 1% level of statistical significance. Assume the underlying distributions of returns for each portfolio are normal and that their population variances are not known.

	Portfolio 1	Portfolio 2	Difference
Mean return	17.00	21.25	4.25
Standard deviation	15.50	15.75	6.25
t-statistic for 24 degrees of freedom and at the 1% level of statistical significance = 2.807			
Null hypothesis (H_0): Mean difference of returns = 0			

Based on the paired comparisons test of the two portfolios, the *most* appropriate conclusion is that H_0 should be:

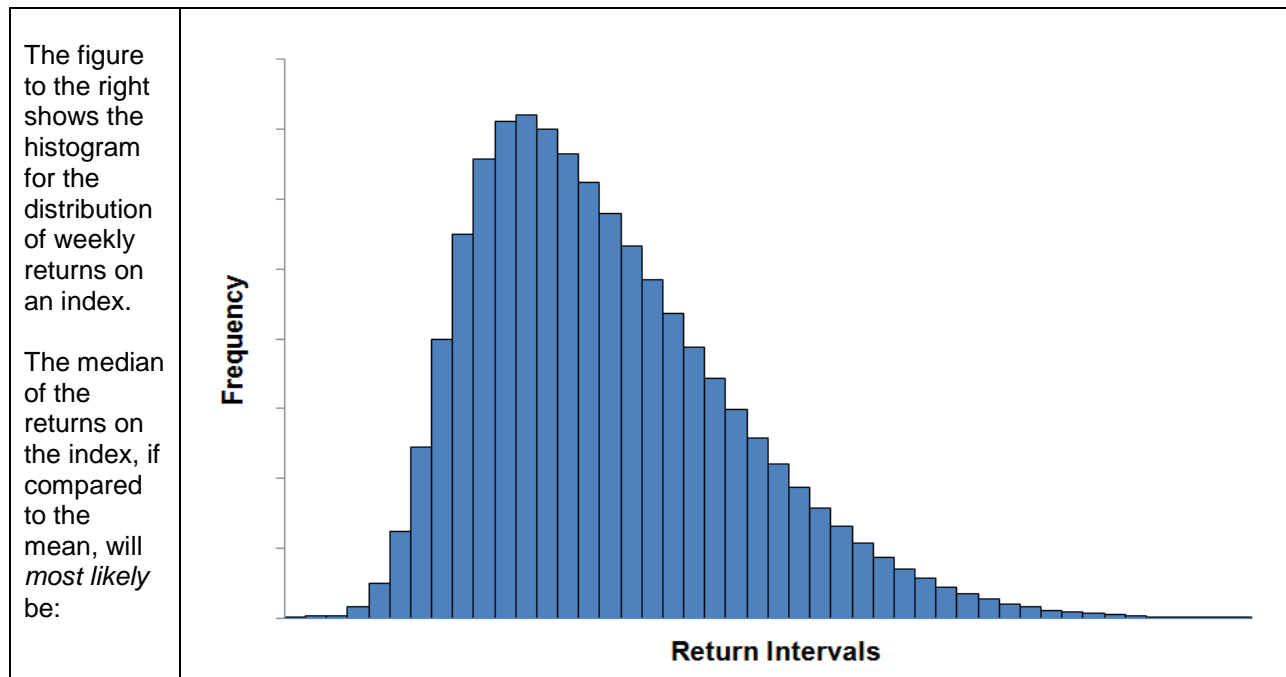
- A. accepted because the computed test statistic is less than 2.807.
 - B. rejected because the computed test statistic exceeds 2.807.
 - C. accepted because the computed test statistic exceeds 2.807.
23. The null hypothesis is *most likely* to be rejected when the p -value of the test statistic:
- A. exceeds a specified level of significance.
 - B. is negative.

C. falls below a specified level of significance.

24. Over the past four years, a portfolio experienced returns of -8% , 4% , 17% , and -12% . The geometric mean return of the portfolio over the four-year period is *closest* to:

- A. 0.99% .
- B. -0.37% .
- C. 0.25% .

25.



- A. equal.
- B. greater.
- C. smaller.

26. Based on historical returns, a portfolio has a Sharpe ratio of 2.0. If the mean return to the portfolio is 20% , and the mean return to a risk-free asset is 4% , the standard deviation of return on the portfolio is *closest* to:

- A. 12% .
- B. 8% .
- C. 10% .

27. The following 10 observations are a sample drawn from an approximately normal population:

Observation	1	2	3	4	5	6	7	8	9	10
Value	-3	-11	3	-18	18	20	-6	9	2	-16

The sample standard deviation is *closest* to:

- A. 13.18.
- B. 12.50.
- C. 11.92.

28. The following ten observations are a sample drawn from an approximately normal population:

Observation	1	2	3	4	5	6	7	8	9	10
Value	-31	-14	3	-18	34	20	-6	9	7	-16

The sample standard deviation is *closest* to:

- A. 17.56.
- B. 18.58.
- C. 19.59.

29. The minimum rate of return an investor must receive in order to accept an investment is *best* described as the:

- A. internal rate of return.
- B. required rate of return.
- C. expected return.

30. Which of the following *most* accurately describes how to standardize a random variable X ?

- A. Subtract the mean of X from X , and then divide that result by the standard deviation of X .
- B. Subtract the mean of X from X , and then divide that result by the standard deviation of the standard normal distribution.
- C. Divide X by the difference between the standard deviation of X and the standard deviation of the standard normal distribution.

31. A descriptive measure of a population characteristic is *best* described as a:

- A. parameter.
- B. frequency distribution.
- C. sample statistic.

32. In generating an estimate of a population parameter, a larger sample size is *most likely* to improve the estimator's:
- consistency.
 - efficiency.
 - unbiasedness.
33. The probability of Event A is 40%. The probability of Event B is 60%. The joint probability of AB is 40%. The probability (P) that A or B occurs, or both occur, is *closest* to:
- 60%.
 - 40%.
 - 84%.
34. Which of the following statements with respect to Giffen and Veblen goods is *least* accurate?
- Giffen goods are "inferior," whereas Veblen goods are "high-status" goods.
 - Both types of goods violate the fundamental axioms of demand theory.
 - Both types of goods demonstrate the possibility of a positively sloping demand curve.
35. The aggregate demand and supply functions for the local market for pizza, along with some relevant data, is provided in the following table.

$Q^D_{\text{Pizza}} = 13,500 - 2,020 P_{\text{Pizza}} + 0.07 I - 0.31 P_{\text{Cola}}$	
$Q^S_{\text{Pizza}} = -4,000 + 1,219 P_{\text{Pizza}} - 91 W$	
Q^D, Q^S are the number of pizzas ordered and supplied P, W, I refer to the prices, wage rate and monthly income	
	Related Data
Price of a pizza	\$5/pizza
Aggregate monthly income	\$2,050
Price of cola per bottle	\$1.35/bottle
Wage rate paid to pizza personnel	\$10

The number of units of excess demand for pizza is *closest* to:

- 2,358.
- 1,471.
- 2,072.

36. A consumer has a budget of \$30 per month to spend on two types of fruit, priced as follows:
- Apples: \$2.50 per pound.
 - Bananas: \$2.00 per pound.

Assuming the quantity of apples is measured on the vertical axis and bananas on the horizontal axis, the slope of the budget constraint is *closest* to:

- A. 1.25.
 B. -0.80.
 C. -1.25.
37. Over a given period, the price of a commodity falls by 5.0%, and the quantity demanded rises by 7.5%. The price elasticity of demand for the commodity is *best* described as:
- A. elastic.
 B. perfectly elastic.
 C. inelastic.

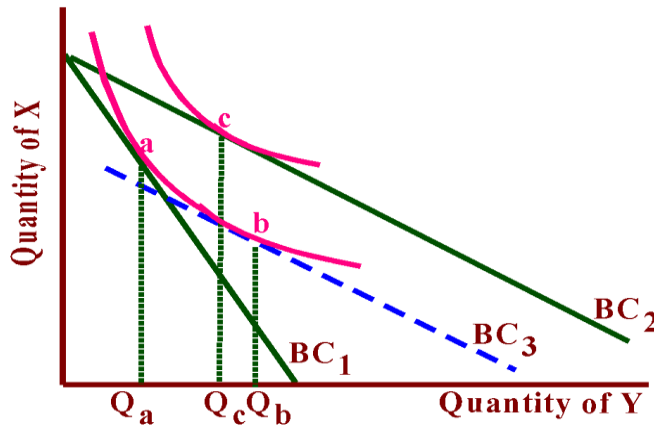
38. The following information applies to a start-up company solely owned by an entrepreneur.

	Value
Total units produced	3,550
Average revenue	\$1,110
Average variable cost	\$750
Total fixed cost	\$300,000
Total investment	\$1,550,000
Required rate of return	12.5%
Opportunity cost of owner's labor	\$125,000

The company's economic profit is *closest* to:

- A. \$784,250.
 B. \$318,750.
 C. \$659,250.

39. The diagram to the below illustrates a consumer's allocation of her budget between items X and Y. With an initial budget (BC_1) she consumes Q_a units of item Y. When the price of Y drops, she



The income effect arising from this change in the price of Y is *best* described as the distance between:

- A. Q_b and Q_a .
 - B. Q_c and Q_a .
 - C. Q_c and Q_b .
40. Which of the following is *most likely* to cause a shift to the right in the aggregate demand curve?
- A. Increase in taxes
 - B. Decrease in real estate values
 - C. Boom in the stock market
41. The price of a good falls from \$15 to \$13. Given this decline in price, the quantity demanded of the good rises from 100 units to 120 units. The arc price elasticity of demand for the good is *closest* to:
- A. 1.3.
 - B. 1.5.
 - C. 10.0.
42. If the quantity demanded of pears falls by 4% when the price of apples decreases by 3%, then apples and pears are *best* described as:
- A. inferior goods.
 - B. complements.
 - C. substitutes.

43. Three firms operate under perfect competition, producing 900 units of the same product but using different production technologies. Each company's cost structure is indicated in the table:

Company	X	Y	Z
Total Variable Costs	\$2,700	\$3,600	\$4,500
Total Fixed Costs	<u>2,700</u>	<u>1,800</u>	<u>900</u>
Total Costs	\$5,400	\$5,400	\$5,400

Which of the following statements is *most* accurate? If the unit selling price is:

- A. \$4.50, all firms should continue to operate in the short run, but exit the market in the long run if these conditions are expected to persist.
 - B. \$3.00, Firm X should continue to operate in the short run, but Firms Y and Z should shut down production.
 - C. \$6.00, all firms should exit the market in the long run.
44. The following international trade information is available for a hypothetical economy:

	Exports	Imports
Initial Value (DCU)	4,800	6,500
Demand elasticity	0.70	0.55
DCU: domestic currency units		

Following a 12% depreciation in the DCU, the trade balance will be *closest* to:

- A. -1,674.
 - B. -1,648.
 - C. -1,726.
45. An expansionary fiscal policy is *most likely* associated with:
- A. an increase in capital gains tax rates.
 - B. crowding out of private investments.
 - C. an increase in government spending on social insurance and benefits.
46. The convergence of global accounting standards has advanced to a degree that the Securities & Exchange Commission in the United States now mandates that foreign private issuers who use IFRS may report under:
- A. U.S. GAAP or under IFRS with a reconciliation to U.S. GAAP.

- B. U.S. GAAP or under IFRS.
C. U.S. GAAP with voluntary supplemental reporting under IFRS.
47. Which of the following statements is *most* accurate about the responsibilities of an auditor for a publicly traded firm in the United States? The auditor must:
- A. ensure that the financial statements are free from error, fraud, or illegal acts.
B. state that the financial statements are prepared according to generally accepted accounting principles.
C. express an opinion about the effectiveness of the company's internal control systems.
48. At the start of the year, a company acquired new equipment at a cost of €50,000, estimated to have a three-year life and a residual value of €5,000. If the company depreciates the asset using the double declining balance method, the depreciation expense that the company will report for the third year is *closest* to:
- A. €3,705.
B. €555.
C. €3,328.
49. In a period of rising prices, when compared with a company that uses weighted average cost for inventory, a company using FIFO will *most likely* report higher values for its:
- A. debt-to-equity ratio.
B. return on sales.
C. inventory turnover.

50. The following data is available on a company:

Metric	(\$ millions)
Total assets	145
Total revenues	282
Total expenses	241
Research & development expenses	12

Under a common-size analysis, the value used for research & development expenses is *closest* to:

- A. 8.3%.
B. 4.2%.
C. 5.0%.
51. Which of the following statements is *most* accurate?
- A. Accrued revenue arises when a company receives cash prior to earning the revenue.

- B. Accrued expenses arise when a company incurs expenses that have not yet been paid as of the end of the accounting period.
- C. A valuation adjustment for an asset converts its historical cost to its depreciated value.
52. A company that prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) uses the revaluation model to value land. At the end of the current year, the value of land, newly acquired this year, has increased and will be adjusted on the balance sheet. This land is the only asset in its asset class for revaluation purposes. Which of the following statements is *most* accurate? In the current period, the revaluation of the land will:
- A. increase return on assets.
- B. decrease the debt-to-equity ratio.
- C. increase return on sales.
53. A company purchased a warehouse for €35 million and incurred the following additional costs in getting the warehouse ready to use:
- €2.0 million for repairs to the building's roof and windows
 - €0.5 million to modify the interior layout to meet their needs (moving walls and doors, inserting and removing partitions, etc.)
 - €0.1 million on an orientation and training session for employees to familiarize them with the facility
- The cost to be capitalized to the building account (in millions) is *closest* to:
- A. €37.6.
- B. €37.5.
- C. €37.0.
54. Notes to financial statements *most likely* include:
- A. a discussion of significant trends, events and uncertainties that affect the operating results.
- B. supplementary information about accounting policies, methods and estimates.
- C. an auditor's opinion as to the fair presentation of the financial statements.
55. At the beginning of the year, a company purchased a fixed asset for \$500,000 with no expected residual value. The company depreciates similar assets on a straight line basis over 10 years, whereas the tax authorities allow declining balance depreciation at the rate of 15% per year. In both cases, the company takes a full year's depreciation in the first year and the tax rate is 40%. Which of the following statements concerning this asset at the end of the year is *most* accurate?
- A. The temporary difference is \$25,000.
- B. The tax base is \$500,000.
- C. The deferred tax asset is \$10,000.

56. The following data is available on a company for the current year:

Metric	(£'000)
Comprehensive income	246,000
Dividends paid	60,000
Ending retained earnings	821,000
Opening retained earnings	580,000

The company will *most likely* report other comprehensive income (OCI) (in £'000) as a:

- A. gain of 301,000.
 - B. gain of 186,000.
 - C. loss of 55,000.
57. A company that prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) is attempting to produce lighter and longer-lasting batteries for portable electronic devices. The *most* appropriate accounting treatment for the related costs incurred in this project is to:
- A. capitalize costs directly related to the development.
 - B. expense costs until technical feasibility has been established.
 - C. expense them as incurred.
58. A company incurs the following costs related to its inventory during the year:

Cost	¥ Millions
Purchase price	100,000
Trade discounts	5,000
Import duties	20,000
Shipping of raw materials to manufacturing facility	10,000
Manufacturing conversion costs	50,000
Abnormal costs as a result of waste material	8,000
Storage cost prior to shipping to customers	2,000

The amount charged to inventory cost (in millions) is *closest* to:

- A. ¥177,000.

- B. ¥175,000.
- C. ¥185,000.

59. An analyst has compiled the following information on a company:

		£ thousands
Beginning of the year values		
	Share capital	2,000
	Retained earnings	8,850
During the year		
	Revenues	12,000
	Total expenses	10,150
	Proceeds from shares issued	500
End of year values		
	Total current assets	9,200
	Total non-current assets	12,750
	Investments	350
	Total liabilities	9,400

The amount of dividends declared (£ thousands) during the year is *closest* to:

- A. 150.
- B. 650.
- C. 300.

60. Interim reports *most likely*:

- A. are issued semi-annually or quarterly.
- B. include a full set of financial statements and notes.
- C. are audited.

61. At the start of a month, a retailer paid \$5,000 in cash for candies. He sold \$2,000 worth of candies for \$3,000 during the month. The *most likely* effect of these transactions on the retailer's accounting equation for the month is that assets will:
- be unchanged.
 - decrease by \$2,000.
 - increase by \$1,000.
62. The use of estimates in financial reporting is *best* described as:
- acceptable despite the risk of manipulation by management.
 - a factor that reduces the understandability of financial statements.
 - avoidable through sophisticated accounting and auditing techniques.
63. Which of the following statements is *most* accurate with respect to the jurisdiction underlying financial reporting?
- The requirement to prepare financial reports in accordance with specified accounting standards is the responsibility of standard-setting bodies.
 - Standard-setting bodies have authority because they are recognized by regulatory authorities.
 - Regulatory authorities are typically private sector, self-regulated organizations.
64. The following information is available on a company for the current year.

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

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

- A. \$7.72.
- B. \$7.57.
- C. \$7.69.

65. Which of the following statements *best* describes a trial balance? A trial balance is a document or computer file that:

- A. shows all business transactions by account.
- B. lists all account balances at a particular point in time.
- C. contains all business transactions recorded in the order in which they occur.

66. The following information is available for a manufacturing company:

	\$ Millions
Cost of ending inventory computed using FIFO	4.3
Net realizable value	4.1
Current replacement cost	3.8

If the company is using International Financial Reporting Standards (IFRS) instead of US GAAP, its cost of goods sold (in millions) is *most likely*:

- A. \$0.3 lower.
- B. the same.
- C. \$0.3 higher.

67. The *least likely* reason that a security analyst needs to understand the accounting process is to:

- A. prevent earnings manipulation by management.
- B. make adjustments to reflect items not reported in the financial statements.
- C. aid in the assessment of management's judgment in accruals and valuations.

68. Which of the following reports is *least likely* to be filed with the US SEC?

- A. Proxy statement
- B. Form 10-K
- C. Annual report

69. According to the International Financial Reporting Standards (IFRS), which of the following conditions *should* be satisfied to report revenue from the sale of goods on the income statement?
- A. Goods have been delivered to the customer.
 - B. Costs can be reliably measured.
 - C. Payment has been received.
70. A company's \$100 par value preferred stock with a dividend rate of 9.5% per year is currently priced at \$103.26 per share. The company's earnings are expected to grow at an annual rate of 5% for the foreseeable future. The cost of the company's preferred stock is *closest* to:
- A. 9.2%.
 - B. 9.5%.
 - C. 9.7%.
- 71.

Income Statement	Millions (\$)
Revenues	9.8
Variable operating costs	7.2
Fixed operating costs	1.5
Operating income	1.1
Interest	0.6
Taxable income	0.5
Tax	0.2
Net income	0.3

The degree of operating leverage (DOL) is *closest* to:

- A. 1.1.
 - B. 2.4.
 - C. 1.7.
72. A 20-year \$1,000 fixed-rate non-callable bond with 8% annual coupons currently sells for \$1,105.94. Assuming a 30% marginal tax rate and an additional risk premium for equity relative to debt of 5%, the cost of equity using the bond-yield-plus-risk-premium approach is *closest* to:
- A. 9.9%
 - B. 13.0%
 - C. 12.0%

73. Which of the following is *most likely* considered an example of matrix pricing when determining the cost of debt?
- A. Debt-rating approach only.
 - B. Yield-to-maturity approach only.
 - C. Both the yield-to-maturity and the debt-rating approaches.

74. A company's data are provided in the following table:

Cost of debt	10%
Cost of equity	16%
Debt-to-equity ratio (D/E)	50%
Tax rate	30%

The weighted average cost of capital (WACC) is *closest* to:

- A. 13.0%.
 - B. 11.5%.
 - C. 14.0%.
75. Which action is *most likely* considered a secondary source of liquidity?
- A. Renegotiating current debt contracts to lower interest payments
 - B. Increasing the efficiency of cash flow management
 - C. Increasing the availability of bank lines of credit

76. The following information is available for a firm:

Revenue	£800,000
Variable cost	400,000
Fixed cost	200,000
Operating income	200,000
Interest	60,000
Net income	140,000

The firm's degree of total leverage (DTL) is *closest* to:

- A. 1.43.
- B. 2.86.
- C. 2.00.

77. Business risk *most likely* incorporates operating risk and:

- A. interest rate risk.
- B. sales risk.
- C. financial risk.

78. A trader who owns shares of a stock currently trading at \$100 per share places a "GTC, stop \$90, limit \$85 sell" order (GTC means good till cancelled). Assuming the specified stop condition is satisfied and the order becomes executed, which of the following statements is *most* accurate?

- A. The trader faces a maximum realized loss of \$15.
- B. The order becomes a market order when the price falls below \$85 and remains valid for execution.
- C. The order will be executed at either \$90 or \$85.

79. A Japanese exporter will sell U.S. dollars for Japanese Yen in the quote-driven currency markets. Which of the following statements *best* describes her currency exchange transactions?

- A. Her counterparties are dealers.
- B. This currency exchange transaction takes place in organized exchanges.
- C. She will pay commissions for exchange services.

80. A market index contains the following two securities:

Stock	Shares in Index	Start-of-Period Price (\$)	End-of-Period Price (\$)	Dividend per Share (\$)
A	600	40	37	2.00
B	500	50	52	1.50

The total return on an equal-weighted basis is *closest* to:

- A. -1.75%.
- B. 2.78%.
- C. 2.25%.

81. The advantages to an investor owning convertible preference shares of a company *most likely* include:
- A. an opportunity to receive additional dividends if the company's profits exceed a pre-specified level.
 - B. preference dividends that are fixed contractual obligations of the company.
 - C. less price volatility than the underlying common shares.
82. The index weighting that results in portfolio weights shifting away from securities that have increased in relative value toward securities that have fallen in relative value whenever the portfolio is rebalanced is *most* accurately described as:
- A. float-adjusted market-capitalization weighting.
 - B. equal weighting.
 - C. fundamental weighting.
83. An industry experiencing slow growth, high prices, and volumes insufficient to achieve economies of scale is *most likely* in the:
- A. shakeout stage.
 - B. mature stage.
 - C. embryonic stage.
84. Which of the following financial intermediaries is *most likely* to provide liquidity service to its clients?
- A. Dealers
 - B. Brokers
 - C. Exchanges
85. The behavioral bias in which investors tend to avoid realizing losses but rather seek to realize gains is *best* described as:
- A. the gambler's fallacy.
 - B. the disposition effect.
 - C. mental accounting.

86. An investor buys a stock on margin and holds the position for one year.

Shares purchased	700
Purchase price	\$22/share
Call money rate	4%
Dividend	\$0.60/share
Leverage ratio	1.6
Total return on the investment	12%

Assuming that the interest on the loan and the dividend are both paid at the end of the year, the price at which the investor sold the stock is *closest* to:

- A. \$23.05.
 - B. \$23.38.
 - C. \$23.98.
87. Which of the following statements concerning the objectives of market regulation is *least* accurate? Regulators:
- A. set standards to ensure that all agents acting in the market are skilled.
 - B. ensure systems are in place to prevent fraud.
 - C. promote fair and orderly markets.
88. An observation that stocks with above average price-to-earnings ratios have consistently underperformed those with below average price-to-earnings ratios *least likely* contradicts which form of market efficiency?
- A. Weak form
 - B. Semi-strong form
 - C. Strong form
89. Which of the following statements concerning financial regulatory bodies is *least* accurate? Financial regulatory bodies:
- A. act to level the playing field for market participants.
 - B. define minimum standards of competence for agents.
 - C. require that regulated firms maintain optimum levels of capital.
90. A long-term bond investor with an investment horizon of 8 years invests in option-free, fixed-rate bonds with a Macaulay duration of 10.5. The investor *most likely* currently has a:
- A. positive duration gap and is currently exposed to the risk of lower interest rates.

- B. negative duration gap and is currently exposed to the risk of higher interest rates.
 - C. positive duration gap and is currently exposed to the risk of higher interest rates.
91. In a repurchase agreement, the repo margin will be lower the:
- A. higher the quality of the collateral.
 - B. lower the demand for the collateral.
 - C. higher the supply of the collateral.
92. The type of residential mortgage *least likely* to contain a "balloon" payment is a(n):
- A. fully amortizing mortgage.
 - B. interest-only mortgage.
 - C. partially amortizing mortgage.
93. A two-year spot rate of 5% is *most likely* the:
- A. yield to maturity on a zero-coupon bond maturing at the end of Year 2.
 - B. yield to maturity on a coupon-paying bond maturing at the end of Year 2.
 - C. coupon rate in Year 2 on a coupon-paying bond maturing at the end of Year 4.
94. Given two otherwise identical bonds, when interest rates rise, the price of Bond A declines more than the price of Bond B. Compared with Bond B, Bond A *most likely*:
- A. has a shorter maturity.
 - B. is callable.
 - C. has a lower coupon.
95. Credit spreads are *most likely* to narrow during:
- A. economic contractions.
 - B. economic expansions.
 - C. a period of flight to quality.
96. If a bank wants the ability to retire debt prior to maturity in order to take advantage of lower borrowing rates, it *most likely* issues a:
- A. callable bond.
 - B. puttable bond.
 - C. convertible bond.

97. Which of the following bonds is *most likely* to trade at a lower price relative to an otherwise identical option-free bond?
- A. Convertible bond
 - B. Callable bond
 - C. Puttable bond
98. Which of the following is *least likely* a short-term funding method available to banks?
- A. Central bank funds
 - B. Syndicated loans
 - C. Negotiable certificate of deposits
99. Which of the following is *least likely* to be a type of embedded option in a bond issue granted to bondholders? The right to:
- A. put the issue.
 - B. call the issue.
 - C. convert the issue.
100. The option-free bonds issued by ALS Corp. are currently priced at 108.50. Based on a portfolio manager's valuation model, a 1bp increase in interest rates will result in the bond price falling to 108.40, whereas a 1bp decrease in interest rates will result in the bond price rising to 108.59. The price value of a basis point (PVBP) for the bonds is *closest* to:
- A. 0.190.
 - B. 0.095.
 - C. 0.088.
101. Holding all other characteristics the same, the bond exposed to the greatest level of reinvestment risk is *most likely* the one selling at:
- A. a premium.
 - B. a discount.
 - C. par.
102. Convenience yield is *best* described as a nonmonetary benefit of holding a(n):
- A. forward contract.
 - B. option contract.
 - C. asset.
103. For a forward contract with a value of zero, a situation where the spot price is above the forward price is *best* explained by high:
- A. convenience yield.

- B. storage costs.
- C. interest rates.

104. An investor purchases 100 shares of common stock at €50 each and simultaneously sells call options on 100 shares of the stock with a strike price of €55 at a premium of €1 per option. At the expiration date of the options, the share price is €58. The investor's profit is *closest* to:

- A. €900.
- B. €600.
- C. €400.

105. According to put-call parity, if a fiduciary call expires in the money, the payoff is *most likely* equal to the:

- A. market value of the asset.
- B. face value of the risk-free bond.
- C. difference between the market value of the asset and the face value of the risk-free bond.

106. A high convenience yield is *most likely* associated with holding:

- A. commodities.
- B. bonds.
- C. equities.

107. Which of the following statements *best* describes changes in the value of a long forward position during its life?

- A. As interest rates go down, the value of the position goes up.
- B. As the time to maturity goes down, the value of the position goes up.
- C. As the price of the underlying goes up, the value of the position goes up.

108. The following information is available about a hedge fund:

Initial fund assets	\$100 million
Fund assets at the end of the period (before fees)	\$110 million
Management fee based on assets under management	2%
Incentive fee based on the return	20%
Soft hurdle rate	8%

No deposits to the fund or withdrawals from the fund occurred during the year. Management fees are calculated using end-of-period valuation. Management fees and incentive fees are calculated independently. The net-of-fees return of the investor is *closest* to:

- A. 5.8%.
- B. 7.4%.
- C. 7.8%.

109. The real estate index *most likely* to suffer from sample selection bias is a(n):

- A. REIT index.
- B. repeat sales index.
- C. appraisal index.

110. Which of the following investments *most likely* provides an investor with indirect equity exposure to real estate?

- A. Real estate limited partnerships
- B. Commercial mortgage-backed securities
- C. Real estate investment trusts

111. Which attribute would a private equity firm *most likely* desire when deciding if a company is particularly attractive as a leveraged buyout target?

- A. Efficient management
- B. Market value exceeds intrinsic value
- C. Sustainable cash flow

112. The stock of GBK Corporation has a beta of 0.65. If the risk-free rate of return is 3% and the expected market return is 9%, the expected return for GBK is *closest* to:

- A. 10.8%.
- B. 3.9%.
- C. 6.9%.

113. The point of tangency between the capital allocation line (CAL) and the efficient frontier of risky assets *most likely* identifies the:

- A. global minimum-variance portfolio.
- B. optimal risky portfolio.
- C. optimal investor portfolio.

114. Which of the following performance measures *most likely* relies on systematic risk as opposed to total risk when calculating a risk-adjusted return?
- A. Treynor ratio
 - B. M-squared
 - C. Sharpe ratio
115. A portfolio manager generated a rate of return of 15.5% on a portfolio with beta of 1.2. If the risk-free rate of return is 2.5% and the market return is 11.8%, Jensen's alpha for the portfolio is *closest* to:
- A. 1.84%.
 - B. 3.70%.
 - C. 4.34%.
116. A return-generating model that provides an estimate of the expected return of a security based on such factors as earnings growth and cash flow generation is *best* described as a:
- A. market factor model.
 - B. macroeconomic factor model.
 - C. fundamental factor model.
117. The correlation between the historical returns of Stock A and Stock B is 0.75. If the variance of Stock A is 0.16 and the variance of Stock B is 0.09, the covariance of returns of Stock A and Stock B is *closest* to:
- A. 0.16.
 - B. 0.09.
 - C. 0.01.
118. Which of the following is *least likely* a part of the execution step of the portfolio management process?
- A. Portfolio construction
 - B. Security analysis
 - C. Performance measurement
119. Consider a portfolio with two assets. Asset A comprises 25% of the portfolio and has a standard deviation of 17.9%. Asset B comprises 75% of the portfolio and has a standard deviation of 6.2%. If the correlation of these two investments is 0.5, the portfolio standard deviation is *closest* to:
- A. 7.90%.
 - B. 6.45%.
 - C. 9.13%.

120. An asset management firm generated the following annual returns in their US large-cap equity portfolio:

Year	Net Return (%)
2008	-34.8
2009	32.2
2010	11.1
2011	-1.4

The 2012 return needed to achieve a trailing five-year geometric mean annualized return of 5% when calculated at the end of 2012 is *closest* to:

- A. 27.6%.
- B. 17.9%.
- C. 35.2%.