You have 180 minutes to complete this session.

1. Carlos Cruz, CFA, is one of two founders of an equity hedge fund. Cruz manages the fund's assets, and the other co-founder, Brian Burkeman, CFA, is responsible for fund sales and marketing. Cruz notices the most recent sales material used by Burkeman indicates assets under management are listed at a higher value than the current market value. Burkeman justifies the discrepancy by stating recent market declines account for the difference. To comply with the CFA Institute Standards of Professional Conduct, Cruz should *least likely* take which of the following actions?

A. Provide a disclaimer in marketing materials indicating prices are as of a specific date.
B. Report the discrepancy to CFA Institute's Professional Conduct Program.
C. Correct the asset information and provide updates to prospective clients.

2. Christina Ng, a Level I CFA candidate, defaulted on a bank loan she obtained to pay for her master's degree tuition when her wedding cost more than expected. A micro finance loan company lent her money to pay off the tuition loan in full, including penalties and interest. The micro finance loan company even extended further credit to pay for her parents' outstanding medical bills. Unfortunately, her parents' health problems escalated to the point that Ng had to take extensive time away from work to deal with the issues. She was subsequently fired and consequently defaulted on the second loan. Because she was no longer employed, Ng decided to file for personal bankruptcy. Do the loan defaults leading up to Ng's bankruptcy *most likely* violate Standard I(D): Misconduct?

A. No
B. Yes, with regard to the first loan default
C. Yes, with regard to the second loan default

3. Kim Klausner, CFA, monitors several hundred employees as head of compliance for a large investment advisory firm. Klausner has always ensured that his company's compliance program met or exceeded those of its competitors. Klausner, who is going on a long vacation, has delegated his supervisory responsibilities to Sue Chang. Klausner informs Chang that her responsibilities include detecting and preventing violations of any capital market rules and regulations and the CFA Institute Standards of Professional Conduct. Klausner *least likely* violated the CFA Institute Standards of Professional Conduct by failing to instruct Chang to also consider:

A. industry standards.
B. firm policies.
C. legal restrictions.

4. When a client asks her how she makes investment decisions, Petra Vogler, CFA, tells the client she uses mosaic theory. According to Vogler, the theory involves analyzing public and nonmaterial nonpublic information, including the evaluation of statements made to her by company insiders in one-on-one meetings in which management discusses new earnings projections not known to the public. Vogler also gathers general industry information from industry experts she has contacted. Vogler *most likely* violates the CFA Institute Standards of Professional Conduct because of her use of:

A. nonmaterial nonpublic information.
B. one-on-one meeting information.

C. industry expert information.

5. Bailey Watson, CFA, manages 25 emerging market pension funds. He recently had the opportunity to buy 100,000 shares in a publicly listed company whose prospects are considered "above industry norm" by most analysts. The company's shares rarely trade because most managers use a buy-and-hold strategy because of the company's small free float. Before placing the order with his dealer, Watson allocated the shares to be purchased according to the weighted value of each of his clients' portfolios. When it came time to execute the trades, the dealer was able to purchase only 50,000 shares. To prevent violating Standard III(B): Fair Dealing, it would be *most* appropriate for Watson to reallocate the 50,000 shares purchased by:

A. reducing each pension fund's allocation proportionately.
B. distributing them equally among all the pension fund portfolios.
C. allocating randomly but giving funds left out priority on the next similar type trade.

6. Lin Liang, CFA, is an investment manager and an auto industry expert. Last month, Liang sent securities regulators an anonymous letter outlining various accounting irregularities at Road Rubber Company. Shortly before he sent the letter to the regulators, Liang shorted Road stock for his clients. Once the regulators opened an investigation, which Liang learned about from his sources inside the company, Liang leaked this information to multiple sources in the media. When news of the investigation became public, the share price of Road immediately dropped 30%. Liang then covered the short positions and made $5 per share for his clients. Liang *least likely* violated which of the CFA Institute Standards of Professional Conduct?

A. Priority of Transactions
B. Misconduct
C. Market Manipulation

7. Jennifer Ducumon, CFA, is a portfolio manager for high-net-worth individuals at Northeast Investment Bank. Northeast holds a large number of shares in Baby Skin Care Inc., a manufacturer of baby care products. Northeast obtained the Baby Skin Care shares when it underwrote the company's recent IPO. Ducumon has been asked by the investment banking department to recommend Baby Skin Care to her clients, who currently do not hold any shares of Baby Skin Care in their portfolios. Although Ducumon has a favorable opinion of Baby Skin Care, she does not consider the shares a buy at the IPO price or at current price levels. According to the CFA Institute Standards of Professional Conduct, the *most* appropriateaction for Ducumon is to:

A. recommend the shares after additional analysis.
B. ignore the request.
C. follow the request as soon as the share price declines.

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8. Rodney Rodrigues, CFA, is responsible for identifying professionals to manage specific asset classes for his firm. In selecting external advisers or subadvisers, Rodrigues reviews the adviser's investment process, established code of ethics, the quality of the published return information, and the compliance and integrated control framework of the organization. In completing his review, Rodrigues *most likely* violated the CFA Institute Standards of Professional Conduct with regard to his due diligence on:

A. internal control procedures.
B. adherence to strategy.
C. performance measures.

9. Solomon Sulzberg, CFA, is a research analyst at Blue Water Management. Sulzberg's recommendations typically go through a number of internal reviews before they are published. In developing his recommendations, Sulzberg uses a model developed by a quantitative analyst within the firm. Sulzberg made some minor changes to the model but retained the primary framework. In his reports, Sulzberg attributes the model to both the quantitative analyst and himself. Before the internal reviews of his reports are completed, Sulzberg buys shares in one of the companies. After the internal review is complete, he fails to recommend the purchase of the stock to his clients and erases all of his research related to this company. Sulzberg *least likely* violated the CFA Institute Standards of Professional Conduct related to:

A. Misrepresentation.
B. Record Retention.
C. Priority of Transactions.

10. Jackson Barnes, CFA, works for an insurance company providing financial planning services to clients for a fee. Barnes has developed a network of specialists—including accountants, lawyers, and brokers—who contribute their expertise to the financial planning process. Each of the specialists is an independent contractor. Each contractor bills Barnes separately for the work he or she performs, providing a discount based on the number of clients Barnes has referred. What steps should Barnes take to be consistent with the CFA Institute Standards of Professional Conduct?

A. Inform potential clients about his arrangement with the contractors before they agree to hire him
B. List the consideration he receives from the specialists on monthly client invoices
C. Have his independent contractors approved by the insurance company

11. On a flight to Europe, Romy Haas, CFA, strikes up a conversation with a fellow passenger, Vincent Trujillo. When Trujillo learns Haas is in the investment profession, he asks about the CFA designation. Haas tells him the following about the CFA designation:

Statement 1: Individuals who have completed the CFA Program have the right to use the CFA designation.
Statement 2: The CFA designation is globally recognized, which is why it can be used as part of a firm's name.
Statement 3: CFA charterholders must satisfy membership requirements to continue using the designation.

In explaining the use of the CFA designation, Haas *least likely* violated the CFA Institute Standards of Professional Conduct concerning which of the following statements?

A. Statement 1
B. Statement 3
C. Statement 2

12. Wouter Duyck, CFA, is the sole proprietor of an investment advisory firm serving several hundred middle-class retail clients. Duyck claims to be different from his competitors because he conducts research himself. He discloses that to simplify the management of all these accounts, he has created a recommended list of stocks from which he selects investments for all of his clients based on their suitability. Duyck's recommended list of stocks is obtained from his primary broker, who has completed due diligence on each stock. Duyck's recommended list *least likely* violates which of the following CFA Institute Standards of Professional Conduct?

A. Diligence and Reasonable Basis
B. Fair Dealing
C. Misrepresentation

13. Abdul Naib, CFA, was recently asked by his employer to submit an updated document providing the history of his employment and qualifications. The existing document on file was submitted when he was hired five years ago. His employer notices the updated version shows Naib obtained his MBA two years ago, whereas the earlier version indicated he had already obtained his MBA at the time of his hire. Because the position Naib was hired for had a minimum qualification of an MBA, Naib is asked to explain the discrepancy. He justifies his actions by stating: "I knew you would not hire me if I did not have an MBA, but I already had my CFA designation. Knowing you required an MBA, I went back to school on a part-time basis after I was hired to obtain it. I graduated at the top of my class, but this should not come as any surprise because you have seen evidence I passed all of my CFA exams on the first attempt." Did Naib *most likely* violate the CFA Institute Standards of Professional Conduct?

A. Yes, with regard to Misconduct
B. No
C. Yes, with regard to Reference to the CFA Designation

14. Tonya Tucker, CFA, is a financial analyst at Bowron Consolidated. Bowron has numerous subsidiaries and is actively involved in mergers and acquisitions to expand its businesses. Tucker analyzes a number of companies, including Hanchin Corporation. When Tucker speaks with the CEO of Bowron, she indicates many of the companies she has looked at would be attractive acquisition targets for Bowron. After her discussion with the CEO, Tucker purchases 100,000 shares of Hanchin Corporation at $200 per share. Bowron does not have any pre-clearance procedures, so the next time she meets with the CEO, Tucker mentions she owns shares of Hanchin. The CEO thanks her for this information but does not ask for any details. Two weeks later, Tucker sees a companywide e-mail from the CEO announcing Bowron's acquisition of Hanchin for $250 a share. In regard to her purchase of Hanchin stock, Tucker *least likely* violated the CFA Institute Standards of Professional Conduct concerning:

A. Priority of Transactions.
B. Loyalty.
C. Material Nonpublic Information.

15. Kelly Amadon, CFA, an investment adviser, has two clients: Ryan Randolf, 65 years old, and Keiko Kitagawa, 45 years old. Both clients earn the same amount in salary. Randolf, however, has a large amount of assets, whereas Kitagawa has few assets outside her investment portfolio. Randolf is single and willing to invest a portion of his assets very aggressively; Kitagawa wants to achieve a steady rate of return with low volatility so she can pay for her child's current college expenses. Amadon recommends investing 20% of both clients' portfolios in the stock of very low-yielding small-cap companies. Amadon *least likely* violated the CFA Institute Standards of Professional Conduct in regard to his investment recommendations for:

A. only Randolf's portfolio.
B. only Kitagawa's portfolio.
C. both clients' portfolios.

16. Danielle Deschutes, CFA, is a portfolio manager who is part of a 10-person team that manages equity portfolios for institutional clients. A competing firm, South West Managers, asks Deschutes to interview for a position with its firm and to bring her performance history to the interview. Deschutes receives written permission from her current employer to bring the performance history of the stock portfolio with her. At the interview, she discloses that the performance numbers represent the work of her team and describes the role of each member. To bolster her credibility Deschutes also provides the names of institutional clients and related assets constituting the portfolio. During her interview, Deschutes *most likely* violated the CFA Institute Standards of Professional Conduct with regard to:

A. her contribution to the portfolio's returns.
B. providing details of the institutional clients.
C. the stock portfolio's performance history.

17. Charles Mbuwanga, a Level III CFA candidate, is the business development manager for Sokoza Investment Group, an investment management firm with high-net-worth retail clients throughout Africa. Sokoza introduced listed Kenyan REITs (real estate investment trusts) to its line of investment products based on new regulations introduced in Kenya to diversify its product offering to clients. The product introduction comes after months of researching Kenyan property correlations with other property markets and asset classes in Africa. Sokoza assigns Mbuwanga as part of the sales team that will introduce this product to its clients across Africa. Mbuwanga subsequently determines most of Sokoza's clients' portfolios would benefit from having a small Kenyan property exposure to help diversify their investment portfolios. By promoting the Kenyan REITs for Sokoza's client portfolios as planned, Mbuwanga would *least likely* violate which of the following standards?

A. Independence and Objectivity
B. Suitability
C. Knowledge of the Law

18. Sheila Schleif, CFA, is an equity analyst at an investment banking division of Mokara Financial Group, a full service financial group. Schleif uses a multifactor computer model to make stock recommendations for all clients of Mokara. Schleif discovers the model contains an error. If the error were corrected, her most recent buy recommendation communicated to all clients would change to a sell. Schleif corrects the error, changing the buy to a sell recommendation, and then simultaneously distributes via e-mail the revision to all investment banking clients who received the initial recommendation. A week later, Schleif sells the same shares she held in her personal portfolio. Concerning her actions, Schleif *most likely* violated which of the following CFA Institute Standards of Professional Conduct?

A. Priority of Transactions
B. Diligence and Reasonable Basis
C. Fair Dealing

19. A firm's estimated costs of debt, preferred stock, and common stock are 12%, 17%, and 20%, respectively. Assuming equal funding from each source and a marginal tax rate of 40%, the weighted average cost of capital (WAAC) is *closest* to:

A. 13.9%.
B. 16.3%.
C. 14.7%.

20. The following information is available for a firm:

Number of shares outstanding	4 million
Tax rate	40%
Cost of debt (pre-tax)	10%
Current stock price	$20.00
Net income	$6 million

A plan to repurchase $10 million worth of shares using debt will *most likely* cause the earnings per share to:

A. increase.
B. remain unchanged.
C. decrease.

21. Which of the following is *most likely* a sign of a good corporate governance structure?

A. The chief executive position is separate from the chair position on the company's board.
B. Independent board members comprise a minority proportion of the company's board.

C. Independent board members are allowed to meet shareholders only in the presence of the entire board.

22. 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. 13.0%
B. 12.0%
C. 9.9%

23. A company's optimal capital budget *most likely* occurs at the intersection of the:

A. marginal cost of capital and net present value profiles.
B. net present value and internal rate of return profiles.
C. marginal cost of capital and investment opportunity schedule.

24. When computing the weighted average cost of capital (WACC) and assuming a fixed-rate non-callable bond is currently selling above par value, the before-tax cost of debt is *closest* to the:

A. coupon rate
B. current yield.
C. yield to maturity.

25. A project has the following annual cash flows:

Year 0	Year 1	Year 2	Year 3	Year 4
–$75,000	$21,600	$23,328	$37,791	$40,815

With a discount rate of 8%, the discounted payback period (in years) is *closest* to:

A. 3.2.
B. 2.8.
C. 3.0.

26. Which date in the chronology of a dividend payment is *most likely* determined by a security exchange?

A. Ex-dividend date
B. Holder-of-record date
C. Declaration date

27. When computing the cash flows for a capital project, which of the following is *least likely* to be included?

A. Financing costs
B. Opportunity costs
C. Tax effects

28. The annual cost of trade credit assumig a 365-day year for terms 3/10 net 40 is *closest* to:

A. 43.3%
B. 44.9%.
C. 32.0%

29. Which of the following measures of profit is *most likely* necessary for a firm to stay in business in the long run?

A. Economic
B. Normal
C. Accounting

30. A country's international transactions accounts data for last year are presented in its domestic currency:

Transaction	**Amount**
Exports of goods and services	10,000
Import of goods and services	14,216
Investment income payments made to foreigners	2,519
Investment income received from foreigners	3,409
Net change in assets owned abroad	1,548
Net change in foreign-owned assets domestically	4,989
Unilateral current transfers received	346
Unilateral current transfers paid	1,107
Statistical discrepancy	646

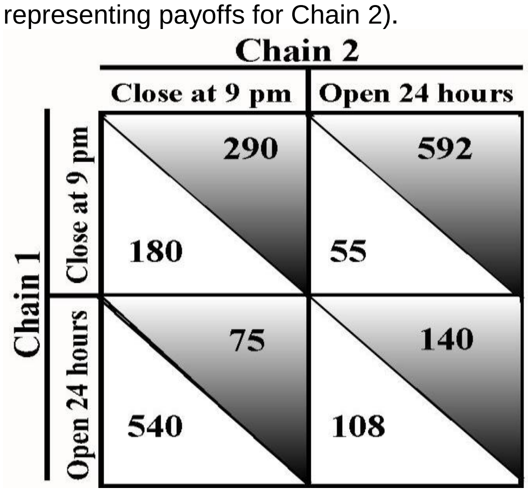
The current account balance is *closest* to:

A. –4,216.
B. –4,087.
C. –4,345.

31. Which of the following will *most likely* cause the short-run aggregate supply (SRAS) curve to shift to the right?

A. Increase in the supply of human capital
B. Increase in nominal wages
C. Increase in business taxes

32. The two dominant supermarket chains in the area are attempting to increase their market share by moving to 24-hour service instead of closing at 9 p.m. every night. The strategic outcomes and payoff matrix that arise from their actions are depicted in the diagram (with the shaded sections representing payoffs for Chain 2).



According to Nash equilibrium, the *best* strategy is for:

A. both chains to open for 24 hours.
B. both chains to close at 9 p.m.
C. only Chain 2 to open for 24 hours.

33. In order to reduce a trade deficit, the government of a country experiencing full employment moves to depreciate its currency. As a result, if the country's domestic spending declines relative to income, the *most likely* mechanism that causes this to occur is the:

A. wealth effect.
B. income effect.
C. substitution effect.

34. A New Zealand traveler returned from Singapore with SGD7,500 (Singapore dollars). A foreign exchange dealer provided the traveler with the following quotes:

Ratio	Spot Rates
USD/SGD	1.2600
NZD/USD	0.7670
USD: US dollar NZD: New Zealand dollar	

The amount of New Zealand dollars (NZD) that the traveler would receive for his Singapore dollars is *closest* to:

A. NZD7,761.
B. NZD7,248.
C. NZD4,565.

35. Demand for a good is *most likely* to be more elastic when:

A. a lesser proportion of income is spent on the good.
B. the adjustment to a price change takes a longer time.
C. the good is a necessity.

36. Which characteristic is a firm *least likely* to exhibit when it operates in a market with a downward sloping demand curve, many competitors, and zero economic profits in the long run?

A. Low barriers to entry
B. Differentiated product
C. No pricing power

37. 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

38. A local laundry and dry cleaner collects the following data on its workforce productivity. Workers always work in teams of two, and the laundry and dry cleaner earns $3.00 of revenue for each shirt laundered.

Quantity of Labor (L) (workers)	**Total Product (TP) (shirts laundered per hour)**
0	0

2	20
4	36
6	50
8	62

The marginal revenue product (MRP, $ per worker) for hiring the fifth and sixth workers is *closest* to*:*

A. $14.
B. $21.
C. $42.

39. Holding the working-age population constant, if the labor force participation rate declines while the number of people employed remains unchanged, the unemployment rate will *most likely*:

A. remain unchanged.
B. increase.
C. decrease.

40. In the short run, a firm operating in a perfectly competitive market will *most likely* avoid shutdown if it is able to earn sufficient revenue to cover which of the following costs?

A. Variable
B. Marginal
C. Fixed

41. An analyst uses a stock screener and selects the following metrics from his equity universe:

- price-to-equity ratio lower than the median P/E
- price-to-book value ratio lower than the median P/BV

The stocks selected would be *most* appropriate for portfolios for which type of investors?

A. Value investors
B. Growth investors
C. Market-oriented investors

42. A company using IFRS reports its interest payments on long-term debt as a financing activity. If the company reported under US GAAP, the *most likely* effect would be a:

A. higher cash flow from operations.
B. lower cash flow from investing activities.
C. higher cash flow from financing activities.

43. At the start of the year, a company's capital contributed by owners and retained earnings accounts had balances of $10,000 and $6,000, respectively. During the year, the following events took place:

Net income earned	$4,000
Interest paid on debt	$500
Repayment of long-term debt	$1,000
Proceeds from shares issued	$1,000
Dividends paid	$600

The end-of-year owners' equity is *closest* to:

A. $19,900.
B. $19,400.
C. $20,400.

44. A company uses the percentage-of-completion method to recognize revenue from its long-term construction contracts and estimates percent completion based on expenditures incurred as a percentage of total estimated expenditures. A three-year contract for €10 million was undertaken with a 30% gross profit margin anticipated. The project is now at the end of its second year, and the following end-of-year information is available:

	Year 1	**Year 2**
Costs incurred during year	€3,117,500	€2,582,500
Estimated total costs	€7,250,000	€7,600,000

The gross profit recognized in Year 2 is *closest* to:

A. €617,500.
B. €960,000.
C. €880,000.

45. An increase in which of the following ratios would *most likely* result in an increase in operating cash flows?

A. Days of sales outstanding
B. Quick ratio
C. Number of days of payables

46. The following information is from a company's accounting records:

	€ Millions
Revenues for the year	12,500
Total expenses for the year	10,000
Gains from available-for-sale securities	1,475
Loss on foreign currency translation adjustments on a foreign subsidiary	325
Dividends paid	500

The company's total comprehensive income (in € millions) is *closest* to:

A. 1,150.
B. 3,150.
C. 3,650.

47. Which of the following statements *most* accurately describes a valuation allowance for deferred taxes? A valuation allowance is required under:

A. both IFRS and US GAAP on deferred tax assets arising from the translation of foreign operations.
B. US GAAP if there is doubt about recovering a deferred tax asset.
C. IFRS on revaluation of a deferred tax asset.

48. A firm reported the following financial statement items:

	€ millions
Net income	2,100
Non-cash charges	400
Interest expense	300
Capital expenditures	210
Working capital expenditures	0
Net borrowing	1,600
Tax rate	40%

The free cash flow to the firm (FCFF) is *closest* to

A. €2,110.
B. €2,590.
C. €2,470.

49. The analytical tool that would be *most* appropriate for an analyst to use to identify the percentage of a company's assets that are liquid is the:

A. current ratio.
B. common-size balance sheet.
C. cash ratio.

50. A company has announced that it is going to distribute a group of long-lived assets to its owners in a spin-off. The *most* appropriate way to account for the assets until the distribution occurs is to classify them as:

A. held for use until disposal with no deprecation taken.
B. held for use until disposal with depreciation continuing to be taken.
C. held for sale with no depreciation taken.

51. The financial statement that would be *most* useful to an analyst in understanding the changes that have occurred in a company's retained earnings over a year is the statement of:

A. financial position.
B. comprehensive income.
C. changes in equity.

52. Under US GAAP, which of the following is *least likely* a disclosure concerning inventory?

A. The carrying amounts of inventories carried at fair value less costs to sell
B. The amount of the reversal of any write-down of inventories
C. The amount of inventories recognized as an expense during the period

53. Under the International Accounting Standards Board's (IASB's) Conceptual Framework, one of the qualitative characteristics of useful financial information is that different knowledgeable users would agree that the information is a faithful representation of the economic events that it is intended to represent. This characteristic is *best* described as:

A. comparability.
B. verifiability.
C. understandability.

54. In accrual accounting, if an adjusting entry results in the reduction of an asset and the recording of an expense, the originating entry recorded was *most likely* a(n):

A. accrued expense.
B. deferred revenue.
C. prepaid expense.

55. Two pharmaceutical companies, Company A and Company B, internally develop drugs and drug analytics software. Company A reports in accordance with IFRS whereas Company B reports in accordance with US GAAP. Which of the following statements is *most* accurate regarding the development costs of the drug patents and software development?

A. Company B can capitalize the development costs related to drug development if it meets certain criteria.
B. Both companies must expense all development costs related to these intangible assets.
C. Company A can capitalize the development costs related to software development if it meets certain criteria.

56. During a period of rising inventory costs, a company decides to change its inventory method from FIFO (first in, first out) to the weighted average cost method. Under the weighted average cost method, which of the following financial ratios will *most likely* be higher than under FIFO?

A. Debt-to-equity ratio
B. Current ratio
C. Number of days in inventory

57. Under US GAAP, interest paid is *most likely* included in which of the following cash flow activities?

A. Financing only
B. Either operating or financing
C. Operating only

58. A retailer provides credit cards only to its most valued customers who pass a rigorous credit check. A credit card customer ordered an item from the retailer in May. The item was shipped and delivered in July. The item appeared on the customer's July credit card statement and was paid in full by the due date in August. The *most* appropriate month in which the retailer should recognize the revenue is:

A. July.
B. May.
C. August.

59. The following table shows selected data from a company's operations:

Net income	$100,000
Increase in accounts receivable	12,000
Increase in accounts payable	9,000
Depreciation and amortization	8,000

The cash flow from operations is *closest* to:

A. $105,000.
B. $89,000.
C. $111,000.

60. A company operating in a highly fragmented and competitive industry reported an increase in return on equity (ROE) over the prior year. Which of the following reasons for the increase in ROE is *least likely* to be sustainable? The company:

A. implemented a new IT system, allowing it to reduce working capital levels as a percentage of assets.
B. decided to make greater use of long-term borrowing capacity.
C. increased the prices of its product significantly.

61. Compared with using the FIFO (first in, first out) method to account for inventory, during a period of rising prices, which of the following is *most likely* higher for a company using LIFO (last in, first out)?

A. Current ratio
B. Inventory turnover
C. Gross margin

62. A company that provides cruise ship vacations uses term loans to finance the acquisition of new cruise ships. Which of the following is *most likely* a negative covenant for the loans? The company must:

A. seek lender approval to pay dividends.
B. ensure the ships are insured.
C. maintain a minimum level of working capital.

63. Which of the following statements about balance sheets is *most* accurate? For balance sheets prepared under:

A. IFRS, a classified balance sheet must present current assets before non-current assets.
B. US GAAP, intangibles must be valued at historical cost.
C. IFRS, a commercial real estate company should use a liquidity based presentation.

64. Selected information about a company is as follows:

	Current Year ($ thousands)	**Projection for Next Year ($ thousands)**
Sales	2,200	2,500
Variable operating costs (% of sales)	28%	30%
Fixed operating costs	1,400	1,400
Tax rate	25%	25%
Dividends paid	55	60
Interest bearing debt at 5%	500	500

The forecasted net income (in $ thousands) for next year is *closest* to:

A. 202.
B. 169.
C. 244.

65. If the stated annual interest rate is 9% and the frequency of compounding is daily, the effective annual rate (EAR) is *closest* to:

A. 9.42%.
B. 9.00%.
C. 9.86%.

66. An analyst wants to estimate the return on the S&P 500 Index for the current year using the following data and assumptions:

- Sample size = 50 stocks from the index.
- Mean return for those stocks in the sample for the previous year = 0.114.
- Variance = 0.0529.
- The reliability factor for a 95% confidence interval with unknown population variance and sample size greater than 30 is $z_{.025}$ = 1.96.

If he assumes that the S&P 500 return this year will be the same as it was last year, which of the following is the *best* estimate of the 95% confidence interval for this year's S&P 500 return?

A. 0.09934 to 0.12866
B. 0.05025 to 0.17775
C. –0.33680 to 0.56480

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67. A stock's expected price movement over the next two periods is as follows:.

Time = 0	Time = 1	Time = 2
S_0 = 80	S_u = 88	S_{uu} = 96.80
	S_d = 72	$S_{ud,du}$ = 79.20
		S_{dd} = 64.80

The initial value of the stock is $80. The probability of an up move in any given period is 75%, and the probability of a down move in any given period is 25%. Using the binomial model, the probability that the stock's price will be $79.20 at the end of two periods is *closest* to:

A. 56.25%.
B. 18.75%.
C. 37.50%.

68. The variance of returns of Asset A is 625. The variance of returns of Asset B is 1,225. The covariance of returns between Asset A and Asset B is 600. The correlation of returns between Asset A and Asset B is *closest* to:

A. 0.47.
B. 0.29.
C. 0.69.

69. The following information is available for a portfolio:

Asset Class	Asset Allocation Weight (%)	Asset Class Return (%)	Correlation with Equities Class (%)
Equities	45	16	100
Mortgages	25	12	30
Cash and equivalents	30	2	10

The return on the portfolio is *closest* to:

A. 10.0%.
B. 8.2%.
C. 10.8%.

70. When an investigator wants to test whether a particular parameter is greater than a specific value, the null and alternative hypothesis are *best* defined as:

A. H_0: $\theta \leq \theta_0$ versus H_a: $\theta > \theta_0$.
B. H_0: $\theta \geq \theta_0$ versus H_a: $\theta < \theta_0$.
C. H_0: $\theta = \theta_0$ versus H_a: $\theta \neq \theta_0$.

71. 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 exceeds 2.807.
B. rejected because the computed test statistic exceeds 2.807.
C. accepted because the computed test statistic is less than 2.807.

72. Use the following values from a student's *t*-distribution to establish a 95% confidence interval for the population mean given a sample size of 10, a sample mean of 6.25, and a sample standard deviation of 12. Assume that the population from which the sample is drawn is normally distributed and the population variance is not known.

Degrees of Freedom	***p* = 0.10**	***p* = 0.05**	***p* = 0.025**	***p* = 0.01**
9	1.383	1.833	2.262	2.821
10	1.372	1.812	2.228	2.764
11	1.363	1.796	2.201	2.718

The 95% confidence interval is *closest* to a:

A. lower bound of –0.71 and an upper bound of 13.21.
B. lower bound of –2.20 and an upper bound of 14.70.
C. lower bound of –2.33 and an upper bound of 14.83.

73. A stock is declining in price and reaches a price range wherein buying activity is sufficient to stop the decline. This range is *best* described as the:

A. change in polarity point.
B. support level.
C. resistance level.

74. 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%.

75. When considering two mutually exclusive capital budgeting projects with conflicting rankings—one has a higher positive net present value (NPV), the other has a higher internal rate of return (IRR)—the *most* appropriate conclusion is to choose the project with the:

A. higher NPV.
B. shorter payback.
C. higher IRR.

76. The dollar discount on a US Treasury bill with 91 days until maturity is $2,100. The face value of the bill is $100,000. The bank discount yield of the bill is *closest* to:

A. 8.58%.
B. 8.40%.
C. 8.31%.

77. Once an investor chooses a particular course of action, the value forgone from alternative actions is *best* described as a(n):

A. required return.
B. sunk cost.
C. opportunity cost.

78. The belief that trends and patterns tend to repeat themselves and are, therefore, somewhat predictable *best* describes:

A. weak-form efficiency.
B. arbitrage pricing theory.
C. technical analysis.

79. The null hypothesis is *most likely* to be rejected when the *p*-value of the test statistic:

A. falls below a specified level of significance.
B. is negative.
C. exceeds a specified level of significance.

80. Which of the following is *most likely* a private equity strategy?

A. Venture capital
B. Merger arbitrage
C. Quantitative directional

81. If the price of a commodity futures contract is below the spot price, it is *most likely* that the:

A. convenience yield exceeds storage costs.
B. cost of carry exceeds the convenience yield.
C. roll yield is negative.

82. High Plains Capital is a hedge fund with a portfolio valued at $475,000,000 at the beginning of the year. One year later, the value of assets under management is $541,500,000. The hedge fund charges a 1.5% management fee based on the end-of-year portfolio value as well as a 10% incentive fee. If the incentive fee and management fee are calculated independently, the effective return for a hedge fund investor is *closest* to:

A. 10.89%.
B. 11.06%.
C. 12.29%.

83. A hedge fund begins the year with $120 million and earns a 25% return for the year. The fund charges a 1.5% management fee on end-of-year fund value and a 15% incentive fee on the return, net of the management fees, that is in excess of a 6% fixed hurdle rate. The fund's investors' return for the year, net of fees, is *closest* to:

A. 19.66%.
B. 20.56%.
C. 21.25%.

84. A futures trader takes a long position of 10 contracts. The initial margin requirement is $10 per contract, and the maintenance margin requirement is $7 per contract. She deposits the required initial margin on the trade date. On Day 3, her margin account balance is $40. On Day 4, variation margin is *closest* to:

A. $30.
B. $60.
C. $70.

85. Based on put–call parity for European options, a synthetic put is *most likely* equivalent to a:

A. short call, long underlying asset, short bond.
B. long call, short underlying asset, long bond.
C. long call, long underlying asset, short bond.

86. If the implied volatility for options on a broad-based equity market index goes up, then it is *most likely* that:

A. the broad-based equity market index has gone up in value.
B. market interest rates have gone up.
C. the general level of market uncertainty has gone up.

87. Which statement *best* describes option price sensitivities? The value of a:

A. call option increases as interest rates rise.
B. put option decreases as interest rates decline.
C. put option increases as volatility decreases.

88. A European company issues a five-year euro-denominated bond with a face value of EUR50,000,000. The company then enters into a five-year currency swap with a bank to convert the EUR exposure into USD exposure. The notional principals of the swap are EUR50,000,000 and USD70,000,000. The European company pays a fixed rate of 5%, and the bank pays a fixed rate of 4.5%. Payments are made semiannually on a basis of 30 days per month and 360 days per year. The payment from the bank to the company at the end of Year 4 is *closest* to:

A. EUR1,250,000.
B. USD1,750,000.
C. EUR1,125,000.

89. A portfolio manager enters into an equity swap with a swap dealer. The portfolio manager agrees to pay the return on the Value Index and receive the return on the Growth Index. The swap's notional principal is $50 million, and the payments will be made semi-annually. The levels of the equity indices are as follows:

Index	**Level at Start of Swap**	**Level Six Months Later**
Value Index	$5,460	$5,350
Growth Index	$1,190	$1,200

The net amount owed to the portfolio manager after six months is *closest* to:

A. $1,427,494.
B. $1,007,326.
C. $587,158.

90. An industry experiencing slow growth, high prices, and volumes insufficient to achieve economies of scale is *most likely* in the:

A. shakeout stage.
B. embryonic stage.
C. mature stage.

91. Which of the following statements concerning different valuation approaches is *most* accurate?

A. The justified forward price-to-earnings ratio (P/E) approach offers the advantage of incorporating fundamentals and presenting intrinsic value estimations.
B. One advantage of the three-stage dividend discount model (DDM) model is that it is equally appropriate to young companies entering the growth phase and those entering the maturity phase.
C. It is advantageous to use asset-based valuation approaches rather than forward-looking cash flow models in the case of companies that have significant intangibles.

92. According to behavioral finance, observed overreaction in securities markets *most likely* occurs because of:

A. gambler's fallacy.
B. disposition effect.
C. loss aversion.

93. A corporate manager pursuing a low-cost strategy will *most likely*:

A. have strong market research teams for product development and marketing.

B. invest in productivity-improving capital equipment.
C. engage in offering products of unique quality or type.

94. A trader buys 500 shares of a stock on margin at $36 a share using an initial leverage ratio of 1.66. The maintenance margin requirement for the position is 30%. The stock price at which the margin call will occur is *closest* to:

A. $25.20.
B. $30.86.
C. $20.57.

95. An equity analyst follows two industries with the following characteristics:

Industry 1: A few companies with proprietary technologies, products with unique features, high switching costs, and minimal regulatory influences.
Industry 2: A few companies producing relatively similar products, sales varying with disposable income and employment levels, high capital costs and investment in physical plants, rapid shifts in market shares of competing firms, and minimal regulatory influences.

Based on the above information, the analyst will *most* appropriately conclude that, compared with the firms in Industry 2, those in Industry 1 would potentially have:

A. over-capacity problems.
B. high bargaining power of customers.
C. larger economic profits.

96. A trader seeking to sell a very large block of stock for her client will *most likely* execute the trade in a(n):

A. quote-driven market.
B. brokered market.
C. order-driven market.

97. The Gordon growth model is *most* appropriate for valuing the common stock of a dividend paying company that is:

A. experiencing growth that is higher than the sustainable growth rate.
B. mature and relatively insensitive to economic fluctuations.
C. young and just entering the growth phase.

98. Which of the following statements is *least* accurate? A firm's free cash flow to equity (FCFE):

A. is significantly affected by the amount of dividends paid by the firm.
B. increases with an increase in the firm's net borrowing.
C. is a measure of the firm's dividend-paying capacity.

99. 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. Semi-strong form
B. Weak form
C. Strong form

100. 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. 2.25%.
C. 2.78%.

101. An investor gathers the following data to estimate the intrinsic value of a company's stock using the justified forward price-to-earnings ratio (P/E) approach.

Next year's earnings per share	$3.00
Return on equity	12.5%
Dividend payout ratio	60%
Required return on shares	10%

The intrinsic value per share is *closest* to:

A. $36.
B. $72.
C. $48.

102. Which of the following is *most likely* a limitation of the yield to maturity measure?

A. It assumes coupon payments can be invested at the yield to maturity.
B. It does not reflect the timing of the cash flows.
C. It does not consider the capital gain or loss the investor will realize by holding the bond to maturity.

103. Assume the following annual forward rates were calculated from the yield curve.

Time Period	Forward Rate
0y1y	0.50%
1y1y	0.70%
2y1y	1.00%
3y1y	1.50%
4y1y	2.20%

The four-year spot rate is *closest* to:

A. 1.348%.
B. 0.924%.
C. 1.178%.

104. Centro Corp. recently issued a floating-rate note (FRN) that includes a feature that prevents its coupon rate from falling below a prespecified minimum rate. This feature in an FRN is *most likely* referred to as a:

A. collar.
B. floor.
C. cap.

105. A portfolio manager holds the following three bonds, which are option free and have the indicated durations.

Bond	**Par Value Owned**	**Market Value Owned**	**Duration**
A	$8,000,000	$12,000,000	3
B	$8,000,000	$6,000,000	7
C	$4,000,000	$6,000,000	6

The portfolio's duration is *closest* to:

A. 5.33.
B. 5.20.
C. 4.75.

106. For bonds that are otherwise identical, the one exhibiting the highest level of positive convexity is *most likely* the one that is:

A. putable.
B. callable.
C. option-free.

107. A BBB rated corporation wishes to issue debt to finance its operations at the lowest cost possible. If it decides to sell a pool of receivables into a special purpose vehicle (SPV), its primary motivation is *most likely* to:

A. receive a guaranty from the SPV to improve the corporation's credit rating.
B. allow the corporation to retain a first lien on the assets of the SPV.
C. segregate the assets into a bankruptcy-remote entity for bondholders.

108. The following table provides information about a portfolio of three bonds.

Bond	Maturity	Price	Par Amount	Duration
1	17-year	$109.2461	$16 million	8.56
2	20-year	$100.4732	$4 million	9.19
3	25-year	$84.6427	$8 million	11.48

Based on this information, the duration of the portfolio is *closest* to:

A. 9.35.
B. 9.48.
C. 9.74.

109. 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 discount.
B. a premium.
C. par.

110. What type of risk *most likely* affects an investor's ability to buy and sell bonds in the desired amounts and at the desired time?

A. Spread
B. Default
C. Market liquidity

111. A bond is currently trading for $109.246 per $100 of par value. If the bond's yield to maturity falls by 25 bps, the bond's full price is expected to rise to $110.481. If the bond's yield to maturity rises by 25 bps, the bond's full price is expected to fall to $108.029. The bond's approximate convexity is *closest* to:

A. 0.066.
B. 400.066.
C. 26.363.

112. Using the following US Treasury forward rates, the value of a 2½-year $100 par value Treasury bond with a 5% coupon rate is *closest* to:

Period	**Years**	**Forward Rate**
1	0.5	1.20%
2	1	1.80%
3	1.5	2.30%
4	2	2.70%
5	2.5	3.00%

A. $101.52.
B. $104.87.
C. $106.83.

113. Which of the following is *least likely* a component of the "Four Cs of Credit Analysis" framework?

A. Collateral
B. Covenants
C. Competition

114. Consider a $100 par value bond with a 7% coupon paid annually and 5 years to maturity. At a discount rate of 6.5%, the value of the bond today is $102.08. One day later, the discount rate increases to 7.5%. Assuming the discount rate remains at 7.5% over the remaining life of the bond, what is *most likely* to occur to the price of the bond between today and maturity?

A. Decreases then increases
B. Increases then decreases
C. Decreases then remains unchanged

115. Using the following US Treasury spot rates, the arbitrage-free value of a two-year $100 par value Treasury bond with a 6% coupon rate is *closest* to:

Period	Years	Spot Rate
1	0.5	1.60%
2	1.0	2.20%
3	1.5	2.70%
4	2.0	3.10%

A. $99.75.
B. $107.03.
C. $105.65.

116. Which of the following is *least likely* a part of the execution step of the portfolio management process?

A. Security analysis
B. Performance measurement
C. Portfolio construction

117. If Investor A has a lower risk aversion coefficient than Investor B, will Investor B's optimal portfolio *most likely* have a higher expected return on the capital allocation line?

A. No, because Investor B has a lower risk tolerance
B. Yes
C. No, because Investor B has a higher risk tolerance

118. A portfolio contains equal weights of two securities having the same standard deviation. If the correlation between the returns of the two securities was to decrease, the portfolio risk would *most likely*:

A. remain the same.
B. increase.
C. decrease.

119. In general, which of the following institutions will *most likely* have a high need for liquidity and a short investment time horizon?

A. Banks
B. Defined benefit pension plans
C. Endowments

120. The following table shows data for the stock of JKU and a market index.

Expected return of JKU	15%
Expected return of market index	12%
Risk-free rate	5%
Standard deviation of JKU returns	20%
Standard deviation of market index returns	15%
Correlation of JKU and market index returns	0.75

Based on the capital asset pricing model (CAPM), JKU is *most likely*:

A. overvalued.
B. fairly valued.
C. undervalued.