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Question block created by wizard

You have 180 minutes to complete this session.

1. Linda Chin, CFA, is a member of a political group advocating less governmental regulation in all aspects of life. She works in a country where local securities laws are minimal and insider trading is not prohibited. Chin's politics are reflected in her investment strategy, where she follows her country's mandatory legal and regulatory requirements. Which of the following actions by Chin would be *most* consistent with the CFA Institute Standards of Professional Conduct?

A. Continuing her current investment strategy
B. Following the CFA Institute Standards of Professional Conduct
C. Disclosing her political advocacy to clients

2. Colleen O'Neil, CFA, manages a private investment fund with a balanced global investment mandate. Her clients insist that her personal investment portfolio replicate the investments within their portfolios to assure them she is willing to put her own money at risk. By undertaking which of the following simultaneous investment actions for her own portfolio would O'Neil *most likely* be in violation of Standard VI(B): Priority of Transactions?

A. Sale of a listed US blue chip value stock
B. Purchase of a UK government bond in the primary market
C. Participation in a popular frontier market IPO

3. Millicent Plain has just finished taking Level II of the CFA examination. Upon leaving the examination site, she meets with four Level III candidates who also just sat for their exams. Curious about their examination experience, Plain asks the candidates how difficult the Level III exam was and how they did on it. The candidates say the essay portion of the examination was much harder than they had expected and that they were not able to complete all questions as a result. The candidates go on to tell Plain about broad topic areas that were tested and complain about specific formulas they had memorized that did not appear on the exam. The Level III candidates *least likely* violated the CFA Institute Standards of Professional Conduct by discussing:

A. specific formulas.
B. the examination essays.
C. broad topic areas.

4. Heidi Halvorson, CFA, is the chief investment officer for Tukwila Investors, an asset management firm specializing in fixed-income investments. Tukwila is in danger of losing one of its largest clients, Quinault Jewelers, which accounts for nearly one-third of its revenues. Quinault recently told Halverson that Tukwila would be fired unless the performance of Quinault's portfolio improves significantly. Shortly after this conversation, Halvorson purchases two corporate bonds she believes are suitable for any of her clients based on third-party research from a reliable and diligent source. Immediately after the purchase, one bond increases significantly in price while the other bond declines significantly. At the end of the day, Halvorson allocates the profitable bond trade to Quinault and the other bond to two of her largest institutional accounts. Halvorson *most likely* violated the CFA Institute Standards of Professional Conduct in regard to:

A. client suitability.
B. third-party research.
C. trade allocations.

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5. Jack Steyn, CFA, recently became the head of the trading desk at a large investment management firm that specializes in domestic equities. While reviewing the firm's trading operations, he notices clients give discretion to the manager to select brokers on the basis of their overall services to the management firm. Despite the client directive, Steyn would *most likely* violate Standard III(A): Loyalty, Prudence, and Care if he pays soft commissions for which of the following services from the brokers?

A. Database services for offshore investments
B. Equity research reports
C. Investment conference attendance

6. Based on his superior return history, Vijay Gupta, CFA, is interviewed by the First Faithful Church to manage the church's voluntary retirement plan's equity portfolio. Each church staff member chooses whether to opt in or out of the retirement plan according to his or her own investment objectives. The plan trustees tell Gupta that stocks of companies involved in the sale of alcohol, tobacco, gambling, or firearms are not acceptable investments given the objectives and constraints of the portfolio. Gupta tells the trustees he cannot reasonably execute his strategy with these restrictions and that all his other accounts hold shares of companies involved in these businesses because he believes they have the highest alpha. By agreeing to manage the account according to the trustees' wishes, does Gupta violate the CFA Institute Standards of Professional Conduct?

A. Yes, because the restrictions provided by the trustees are not in the best interest of the members
B. Yes, because the manager was hired based on his previous investment strategy
C. No

7. Jorge Lopez, CFA, is responsible for proxy voting on behalf of his bank's asset management clients. Lopez recently performed a cost–benefit analysis that showed the proxy-voting policies might not benefit the bank's clients. As a result, Lopez immediately changes the proxy-voting policies and procedures without informing anyone. Lopez now votes client proxies on the side of management on all issues, with the exception of major mergers in which a significant impact on the stock price is expected. Lopez *least likely* violated the CFA Institute Standards of Professional Conduct in regard to:

A. cost–benefit analysis.
B. voting with management.
C. proxy-voting policy disclosures.

8. Chris Rodriguez, CFA, is a portfolio manager at Nisqually Asset Management, which specializes in trading highly illiquid shares. Rodriguez has been using Hon Securities Brokers almost exclusively when making transactions for Nisqually clients, as well as for his own relatively small account. Hon always executes Rodriguez's personal trades at a more preferential price than for Rodriguez's clients' accounts. This special pricing occurs regardless of whether or not Rodriguez personally trades before or after clients. Rodriguez should *least likely* do which of the following in order to comply with the CFA Institute Standards of Professional Conduct?

A. Trade client accounts before his own account.
B. Eliminate the exclusive trading arrangement.
C. Average trade prices across all trading accounts.

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9. When Abdullah Younis, CFA, was hired as a portfolio manager at an asset management firm two years ago, he was told he could allocate his work hours as he saw fit. At that time, Younis served on the board of three non-public golf equipment companies and managed a pooled investment fund for several members of his immediate family. Younis was not compensated for his board service or for managing the pooled fund. Younis's investment returns attract interest from friends and co-workers who persuade him to include their assets in his investment pool. Younis recently retired from all board responsibilities and now spends more than 80% of his time managing the investment pool for which he charges non-family members a management fee. Younis has never told his employer about any of these activities. To comply with the CFA Institute Standards of Professional Conduct with regard to his business activities over the past two years, Younis would *least likely* be required to disclose which of the following to his employer?

A. Family investment pool management
B. Board activities
C. Non-family member management fees

10. Tamlorn Mager, CFA, is an analyst at Pyallup Portfolio Management. CFA Institute recently notified Mager that his CFA Institute membership was suspended for a year because he violated the CFA Institute Code of Ethics. A hearing panel also came to the same conclusion. Mager subsequently notified CFA Institute that he does not accept the sanction or the hearing panel's conclusion. Which of the following actions by Mager would be *most* consistent with the CFA Institute Professional Conduct Program?

A. Providing evidence for his position to an outside arbitration panel
B. Using his CFA designation upon expiration of the suspension period
C. Presenting himself to the public as a CFA charterholder

11. Elbie Botha, CFA, an equity research analyst at an investment bank, disagrees with her research team's buy recommendation for a particular company's rights issue. She acknowledges the team's recommendation is based on a well-developed process and extensive research, but she feels the valuation is overpriced based on her assumptions. Despite her contrarian view, her name is included on the research report to be distributed to all of the investment bank's clients. To avoid violating any CFA Institute Standards of Professional Conduct, it would be *least* appropriate for Botha to undertake which of the following?

A. Insist her name be removed from the report
B. Leave her name on the report
C. Issue a new report

12. Thomas Turkman recently hired Georgia Viggen, CFA, as a portfolio manager for North South Bank. Although Viggen worked many years for a competitor, West Star Bank, the move was straightforward because she did not have a non-compete agreement with her previous employer. Once Viggen starts working for Turkman, the first thing she does is bring to her new employer a trading software package she developed and used at West Star. Using public information, Viggen contacts all of her former clients to convince them to move with her to North South. Viggen also convinces one of the analysts she worked with at West Star to join her at her new employer. Viggen *most likely* violated the CFA Institute Standards of Professional Conduct concerning her actions involving:

A. clients.
B. trading software.
C. the analyst.

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13. Lisa Hajak, CFA, specialized in research on real estate companies at Cornerstone Country Bank for 20 years. Hajak recently started her own investment research firm, Hajak Investment Advisory. One of her former clients at Cornerstone asks Hajak to update a research report she wrote on a real estate company when she was at Cornerstone. Hajak updates the report, which she had copied to her personal computer without the bank's knowledge, and replaces references to the bank with her new firm, Hajak Investment Advisory. Hajak also incorporates the conclusions of a real estate study conducted by the Realtors Association that appeared in the *Wall Street Journal*. She cites the *Wall StreetJournal* as her source in her report. She provides the revised report free of charge along with a cover letter for the bank's client to become a client of her firm. Concerning the reissued research report, Hajak *least likely* violated the CFA Institute Standards of Professional Conduct because she:

A. did not cite the actual source of the real estate study.
B. solicited the bank's client.
C. used the bank report without consent.

14. Henrietta Huerta, CFA, writes a weekly investment newsletter to market her services and obtain new asset management clients. A third party distributes the free newsletter on her behalf to those individuals on its mailing list. As a result, it is widely read by thousands of individual investors. The newsletter recommendations reflect most of Huerta's investment actions. After completing further research on East-West Coffee Roasters, Huerta decides to change her initial buy recommendation to a sell. To avoid violating the CFA Institute Standards of Professional Conduct, it would be *most* appropriate for Huerta to distribute the new investment recommendation to:

A. newsletter recipients and asset management clients simultaneously.
B. asset management clients first.
C. newsletter recipients first.

15. Suni Kioshi, CFA, is an analyst at Pacific Asset Management, where she covers small-capitalization companies. On her own time, Kioshi often speculates in low-price thinly traded stocks for her own account. Over the last three months, Kioshi has purchased 50,000 shares of Basic Biofuels Company, giving her a 5% ownership stake. A week after this purchase, Kioshi is asked to write a report on stocks in the biofuels industry, with a request to complete the report within two days. Kioshi wants to rate Basic Biofuels as a buy in this report but is uncertain how to proceed. Concerning the research report, what action should Kioshi *most likely* take to prevent violating any of the CFA Institute Standards of Professional Conduct?

A. Not recommend a buy
B. Disclose her stock ownership
C. Sell her shares

16. Edo Ronde, CFA, an analyst for a hedge fund, One World Investments, is attending a key industry conference for the microelectronics industry. At lunch in a restaurant adjacent to the conference venue, Ronde sits next to a table of conference attendees and is able to read their nametags. Ronde realizes the group includes the president of a publicly traded company in the microelectronics industry, Fulda Manufacturing, a company Ronde follows. Ronde overhears the president complain about a production delay problem Fulda's factories are experiencing. The president mentions that the delay will reduce Fulda's earnings by more than 20% during the next year if not solved. Ronde relays this information to the portfolio manager he reports to at One World explaining that in a recent research report he recommended Fulda as a buy. The manager asks Ronde to write up a negative report on Fulda so the fund can sell the stock. According to the CFA Institute Standards of Professional Conduct, Ronde should *least likely*:

A. request the portfolio manager not act on the information.

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B. leave his research report as it is.
C. revise his research report.

17. Victoria Christchurch, CFA, is a management consultant currently working with a financial services firm interested in curtailing its high staff turnover, particularly among CFA charterholders. In recent months, the company lost 5 of its 10 most senior managers, all of whom have cited systemic unethical business practices as the reason for their leaving. To curtail staff turnover by encouraging ethical behavior, it would be *least* appropriate for Christchurch to recommend the company do which of the following?

A. Implement a whistleblowing policy
B. Create, implement, and monitor a corporate code of ethics
C. Encourage staff retention by offering increased benefits

18. Dilshan Kumar, CFA, is a world-renowned mining analyst based in London. Recently, he received an invitation from Cerberus Mining, a company listed on the London Stock Exchange with headquarters in Johannesburg, South Africa. Cerberus asked Kumar to join a group of prominent analysts from around the world on a tour of its mines in South Africa, some of which are in remote locations and not easily accessible. The invitation also includes an arranged wildlife safari to Krueger National Park for the analysts. Kumar accepts the invitation, planning to visit other mining companies he covers in Namibia and Botswana after the safari. To prevent violating any CFA Institute Standards of Professional Conduct, it is *most* appropriate for Kumar to only accept which type of paid travel arrangements from Cerberus?

A. Flights on a private airplane to the remote mining sites in South Africa
B. Economy class round trip ticket from London to Johannesburg
C. Ground transportation to Krueger National Park

19. Which method of calculating the firm’s cost of equity is most likely to incorporate the long-run return relationship between the firm's stock and the market portfolio?

A. Capital asset pricing model
B. Dividend discount model
C. Bond yield plus risk premium approach

20. A project has the following annual cash flows:

Year 0	**Year 1**	**Year 2**	**Year 3**	**Year 4**
–$4,662,005	$22,610,723	–$41,072,261	$33,116,550	–$10,000,000

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

A. 8%
B. 10%
C. 15%

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21. Which action is *most likely* considered a secondary source of liquidity?

A. Increasing the efficiency of cash flow management
B. Increasing the availability of bank lines of credit
C. Renegotiating current debt contracts to lower interest payments

22. Financial risk is *least likely* affected by:

A. debentures.
B. long-term leases.
C. dividends.

23. Which of the following is the *least* appropriate method for an external analyst to use to estimate a company's target capital structure for determining the weighted average cost of capital (WACC)?

A. Using averages of comparable companies' capital structure
B. Using the company's current capital structure at book value weights
C. Using statements made by the company's management regarding capital structure policy

24. Based on best practices in corporate governance procedures, it is *most* appropriate for a company's compensation committee to:

A. include some non-independent members.
B. be aware of any final payments to which executives might be entitled.
C. rely on management to communicate compensation philosophy to shareholders.

25. Other factors held constant, the reduction of a company's average accounts payable because of suppliers offering less trade credit will *most likely*:

A. increase the operating cycle.
B. not affect the operating cycle.
C. reduce the operating cycle.

26. Assume a 365-day year and the following information for a company:

	Current Year	**Previous Year**
Sales	$12,000	$10,000
Cost of goods sold	$9,000	$7,500
Inventory	$1,200	$1,000
Accounts payable	$600	$600

The firm's days of payables for the current year is *closest* to:

A. 18.3.

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B. 23.8.
C. 24.9.

27. Which of the following statements is the *most* appropriate treatment of flotation costs for capital budgeting purposes? Flotation costs should be:

A. incorporated into the estimated cost of capital.
B. expensed in the current period.
C. deducted as one of the project's initial-period cash flows.

28. A small country has a comparative advantage in the production of pencils. The government establishes an export subsidy for pencils to promote economic growth. Which of the following will be the *most likely* result of this policy?

A. The increase in the domestic producer surplus will exceed the sum of the subsidy and the decrease in the domestic consumer surplus.
B. As new domestic producers enter the pencils market, supply will increase and domestic prices will decline.
C. Although domestic producers will receive a net benefit, the policy will give rise to inefficiencies

29. The following data are for a basket of three consumption goods used to measure the rate of inflation:

Goods	**Prior Year**		**Current Year**	
	Quantity	**Price**	**Quantity**	**Price**
5 lb. bag sugar	150 bags	$3.12	180 bags	$2.92
5 lb. bag flour	800 bags	$2.18	750 bags	$3.12
Frozen pizza (each)	250	$2.90	250	$3.00

Using the consumption basket for the current year, the Paasche Index is *closest* to:

A. 125.4.
B. 123.7.
C. 124.6.

30. A country having a current account deficit *most likely* will still be able to consume more output than it produces by:

A. restricting foreign direct investment.
B. adjusting interest rates to stimulate higher domestic savings.
C. increasing its net foreign liabilities.

31. In an effort to influence the economy, a central bank conducted open market activities by selling government bonds. This action implies that the central bank is *most likely* attempting to:

A. contract the economy through a lower policy interest rate.

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B. expand the economy through a lower policy interest rate.
C. contract the economy by reducing bank reserves.

32. Which of the following government interventions in market forces is *most likely* to cause overproduction?

A. Price floors
B. Imposing an additional per-unit tax of $1 on sellers
C. Price ceilings

33. An expansionary fiscal policy is *most likely* associated with:

A. an increase in government spending on social insurance and benefits.
B. crowding out of private investments.
C. an increase in capital gains tax rates.

34. Which of the following would be *most* useful as a leading indicator to signal the start of an economic recovery?

A. The narrowing of the spread between the 10-year Treasury yield and the federal funds rate
B. A decrease in average weekly initial claims for unemployment insurance
C. An increase in aggregate real personal income (less transfer payments)

35. A household has a total monthly budget of $110 to spend on chicken and lamb. Per kilogram, the price of chicken is $7.50 and the price of lamb is $10. The quantity of chicken consumed is 35% less than that for lamb. The quantity of chicken (in kilograms) consumed by the household in a month is *closest* to:

A. 4.8 kg.
B. 5.1 kg.
C. 2.6 kg.

36. According to the Fisher effect, an increase in expected inflation will *most likely* increase:

A. both nominal and real interest rates.
B. the nominal interest rate.
C. the real interest rate.

37. 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.

38. Which of the following statements concerning the Herfindahl–Hirschman Index (HHI) is *most* accurate?

A. The HHI is a useful measure of potential barriers to entry.
B. An HHI of 0.05 would be analogous to having the market shared equally by 20 firms.
C. The HHI is usually unaffected by mergers among the top market incumbents.

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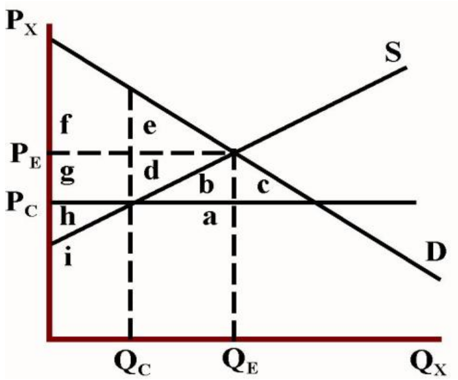
39. The following diagram illustrates a market that had been in equilibrium at (P_E, Q_E) prior to the imposition of a price ceiling, P_C.The deadweight loss that arises because of this market intervention is best described by the area defined by:



A. *d* + *b*.
B. *d* + *e*.
C. *d* + *g*.

40. By themselves, financial ratios are *least likely* to be sufficient in determining a company's:

A. past performance.
B. current financial condition.
C. creditworthiness.

41. Unused tax losses and credits that a company expects to use in future periods will *most likely* give rise to:

A. valuation allowances.
B. deferred tax liabilities.
C. deferred tax assets.

42. The following information about a company is provided:

Account	**$ Thousands**
Contributed capital, beginning of the year	50
Retained earnings, beginning of the year	225
Sales revenues earned during the year	450
Investment income earned during the year	5

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Total expenses paid during the year	402
Dividends paid during the year	10
Total assets, end of the year	800

Total liabilities (in $ thousands) at the end of the year are *closest* to:

A. 482.
B. 472.
C. 487.

43. A company that prepares its financial statements in accordance with IFRS incurred and capitalized €2 million of development costs during the year. These costs were fully deductible immediately for tax purposes, but the company is depreciating them over two years for financial reporting purposes. The company has a long history of profitability, which is expected to continue. Which is the *most* appropriate way for an analyst to incorporate the differential tax treatment in his analysis? He should include it in:

A. liabilities when calculating the company's current ratio.
B. equity when calculating the company's return-on-equity ratio.
C. liabilities when calculating the company's debt-to-equity ratio.

44. The following information is available from a company's current financial data, prepared according to US GAAP:

	$ Thousands
Defined Contribution Plan:	
Contributions to defined contribution plan	1,000
Defined Benefit Plan:	
Contributions to defined benefit plan	1,500
Employees' service cost for the period	1,400
Interest expense accrued on the beginning pension obligation	200
Expected return on plan assets	400
Actuarial gains for the period	100

The pension expense (in $ thousands) reported in the current year is *closest* to:

A. 2,200.

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B. 2,500.
C. 2,400.

45. A company purchased equipment for $50,000 on 1 January 2011. It is depreciating the equipment over a period of 10 years on a straight-line basis for accounting purposes, but for tax purposes it is using the declining balance method at a rate of 20%. Given a tax rate of 30%, the deferred tax liability at the end of 2013 is *closest* to:

A. $6,720.
B. $420.
C. $2,820.

46. Under the IFRS Framework for the Preparation and Presentation of Financial Statements, it is *most* appropriate to recognize a financial statement element in the financial statements if it:

A. provides certainty that any future economic benefit associated with the item will flow to or from the enterprise.
B. is normally carried at historical cost, current cost, or fair market value.
C. has a cost or value that can be measured with reliability.

47. Compared with classifying a lease as a financing lease, if a lessee reports the lease as an operating lease, it will *most likely* result in:

A. a higher debt-to-equity ratio.
B. a lower return on assets.
C. lower cash from operations.

48. At the beginning of the year, a company had total shareholders' equity consisting of ¥200 million in common share capital and ¥50 million in retained earnings.

During the year, the following events occurred:

	¥ Millions
Net income reported	42
Dividends paid	7
Unrealized loss on available-for-sale investments	3
Repurchase of company stock, to be held as Treasury stock	6

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The total shareholders' equity (in ¥ millions) at the end of the year is *closest* to:

A. 276.
B. 279.
C. 282.

49. Which of the following statements is *most* accurate?

A. A classified balance sheet arises when in an auditor's opinion the financial statements materially depart from accounting standards and are not presented fairly.
B. Non-controlling interest on the balance sheet represents a position the company owns in other companies.
C. Treasury stock is non-voting and receives no dividends.

50. A company that prepares its financial statements according to IFRS owns several investment properties on which it earns rental income. It values the properties using the fair value model based on prevailing rental markets. After two years of increases, the market softened in 2014 and values decreased. A summary of the properties' valuations follows:

Original cost (acquired in 2012)	€50.0 million
Fair value valuation at 31 December 2012	€50.5 million
Fair value valuation at 31 December 2013	€54.5 million
Fair value valuation at 31 December 2014	€48.0 million

Which of the following *best* describes the impact of the revaluation on the 2014 financial statements?

A. €6.5 million charge to net income
B. €6.5 million charge to revaluation surplus
C. €4.5 million charge to revaluation surplus and €2.0 million charge to net income

51. Using the following information, a Mexican corporation is computing the depreciation expense for a piece of manufacturing equipment that it purchased at the start of the current year. The company takes a full year's depreciation in the year of acquisition.

Cost of equipment	MXN2,000,000
Estimated residual value	MXN200,000
Expected useful life	10 years
Total productive capacity	5,000,000 units
Production during year	800,000 units

The depreciation expense (in MXN) will *most likely* be higher by:

A. 112,000, using the double-declining method compared with the units-of-production method.
B. 140,000, using the units-of-production method compared with the straight-line method.
C. 180,000, using the double-declining balance method compared with the straight-line method.

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52. A company suffered a substantial loss when its production facility was destroyed in an earthquake against which it was not insured. Geological scientists were surprised by the earthquake because there was no evidence that one had ever occurred in that area in the past. Which of the following statements is *most* accurate? The company should report the loss on its income statement:

A. as an unusual item if it reports under US GAAP.
B. net of taxes if it reports under US GAAP.
C. as an extraordinary item net of taxes if it reports under IFRS.

Answer = B

"Understanding Income Statements," Elaine Henry and Thomas R. Robinson
Sections 5.2, 5.3

Under US GAAP, the earthquake would qualify as an extraordinary item because it is both unusual in nature and infrequent in occurrence. Extraordinary items are reported on the income statement net of tax.

53. A Canadian printing company that prepares its financial statements according to IFRS has experienced a decline in the demand for its products. The following information (in Canadian dollars) relates to the company's printing equipment as of the current fiscal year end:

	C$
Carrying value of equipment (net book value)	500,000
Undiscounted expected future cash flows	550,000
Present value of expected future cash flows	450,000
Fair value	480,000
Costs to sell	50,000
Value in use	440,000

The impairment loss (in C$) is *closest* to:

A. 0.
B. 60,000.
C. 70,000.

54. If a non-financial company securitizes its accounts receivable for less than their book value, the *most likely* effect on the financial statements is to increase:

A. cash from operations.
B. net income.
C. cash from financing activities.

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55. Updated information on a company's performance and financial position since the last annual report is *most likely* found in:

A. management discussion and analysis.
B. proxy statements.
C. interim reports.

56. An analyst has calculated the following ratios for a company:

Operating profit margin	17.5%
Net profit margin	11.7%
Total asset turnover	0.89 times
Return on assets (ROA)	10.4%
Financial leverage	1.46
Debt to equity	0.46

The company's return on equity (ROE) is *closest* to:

A. 15.2%.
B. 22.7%.
C. 4.8%.

57. During 2013, the following events occurred at a company:

1.	It purchased a customer list for $100,000, which is expected to provide equal annual benefits for the next four years.
2.	It recorded $200,000 of goodwill in the acquisition of a competitor. It is estimated that the acquisition would provide substantial benefits for the company for at least the next 10 years.
3.	It spent $300,000 on media placements announcing that the company had donated products and services to the community. The CEO believes the firm’s reputation was enhanced substantially and that the company will likely benefit from it for the next five years.

Based on those events, the amortization expense that the company should report in 2014 is *closest* to:

A. $85,000.
B. $25,000.
C. $45,000.

58. An analyst has gathered the following information about a company:

	Canadian

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	Dollars (millions)
Cash flow from operating activities (CFO)	$105.9
Cash flow from investing activities	(11.8)
Cash flow from financing activities	46.5
Net change in cash for the year	$140.6
Interest paid (included in CFO)	22.4
Taxes paid (tax rate of 30%)	18.0
Total debt, end of year	$512.8

The cash flow debt coverage ratio for the year is *closest* to:

A. 20.6%.
B. 27.4%.
C. 23.7%.

59. The following financial information is available at the end of the year.

	Share Information		
Security	**Authorized**	**Issued and Outstanding**	**Other Features**
Common stock	500,000	250,000	Currently pays a dividend of $1 per share.
Preferred stock, Series A	50,000	12,000	Nonconvertible, cumulative; pays a dividend of $4 per share.
Preferred stock, Series B	50,000	30,000	Convertible; pays a dividend of $7.50 per share. Each share is convertible into 2.5 common shares.
Additional information:			
Reported income for the year	$1,000,000		

The diluted EPS (earnings per share) is *closest* to:

A. $2.91.
B. $3.08.
C. $2.93.

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60. A company that prepares its financial statements in accordance with IFRS issues £5,000,000 face value 10-year bonds on 1 January 2013 when market interest rates for such bonds are 5.50%. The bonds carry a coupon of 6.50%, with interest paid annually on 31 December. The carrying value of the bonds as of 31 December 2014 will be *closest* to:

A. £4,695,000.
B. £5,316,000.
C. £5,301,000.

61. Interest payable decreased during a company's fiscal year. Compared with the amount of cash interest payments made, interest expense is *most likely*:

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

62. A company has operated at full capacity throughout the year, and a review of its inventory records for that period indicate that the following costs were incurred:

Fixed production overhead	$500,000
Direct material and direct labor	$300,000
Storage costs incurred during production	$25,000
Abnormal waste costs	$30,000

The total capitalized costs to inventory during the year are *closest* to:

A. $855,000.
B. $825,000.
C. $800,000.

63. A company's balance sheet at the end of the year shows the following:

Current Assets	
Cash and cash equivalents	$2,950
Marketable securities	730

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Notes and accounts receivable, trade	5,740
Less allowance for doubtful accounts and sales returns	(650)
Inventories	1,320
Other current assets	1,850
Total current assets	**$11,940**
Current Liabilities	
Accounts payable and other accrued liabilities	$5,100
Current portion of borrowings	1,820
Other current liabilities	2,560
Total current liabilities	**$9,480**

The company's quick ratio is *closest* to:

A. 1.26.
B. 0.93.
C. 0.99.

64. An investor purchases one share of stock for \$85. Exactly one year later, the company pays a dividend of \$2.00 per share. This is followed by two more annual dividends of \$2.25 and \$2.75 in successive years. Upon receiving the third dividend, the investor sells the share for \$100. The money-weighted rate of return on this investment is *closest* to:

A. 7.97%.
B. 8.63%.
C. 8.15%.

65. An individual wants to be able to spend €80,000 per year for an anticipated 25 years in retirement. To fund this retirement account, he will make annual deposits of €6,608 at the end of each of his working years. He can earn 6% compounded annually on all investments. The minimum number of deposits that are needed to reach his retirement goal is *closest* to:

A. 40.
B. 51.
C. 28.

66. Equity return distributions are *best* described as being:

A. mesokurtotic.
B. leptokurtotic.
C. platykurtotic.

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67. For a positively skewed unimodal distribution, which of the following measures is *most* accurately described as the largest?

A. Mode
B. Median
C. Mean

68. If the distribution of the population from which samples of size *n* are drawn is positively skewed and given that the sample size, *n*, is large, the sampling distribution of the sample means is *most likely to* have a:

A. mean smaller than the mean of the entire population.
B. variance equal to that of the entire population.
C. distribution that is approximately normal.

69. The arithmetic and geometric mean are calculated for the same data. If there is variability in the data, compared with the arithmetic mean, the geometric mean will *most likely* be:

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

70. The following 10 observations are a sample drawn from a normal population: 25, 20, 18, –5, 35, 21, –11, 8, 20, and 9. The fourth quintile (80th percentile) of the sample is *closest* to:

A. 8.
B. 24.
C. 21.

71. A fund manager would like to estimate the probability of a daily loss higher than 5% on the fund he manages. He decides to use a method that uses the relative frequency of occurrence based on historical data. The resulting probability is *best* described as a(n):

A. subjective probability.
B. a priori probability.
C. empirical probability.

72. In generating an estimate of a population parameter, a larger sample size is *most likely* to improve the estimator's:

A. efficiency.
B. consistency.
C. unbiasedness.

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73. The following is an excerpt from the cumulative distribution function for the standard normal random variable table:

Cumulative Probabilities for a Standard Normal Distribution

***P*(*Z* ≤ *x*) = *N*(*x*) for *x* ≥ 0 or *P*(*Z* ≤ *z*) = *N*(*z*) for *z* ≥ 0**

x* or *z	**0**	**0.01**	**0.02**	**0.03**	**0.04**	**0.05**	**0.06**	**0.07**	**0.08**
0.10	0.5398	0.5438	0.5478	0.5517	0.5557	0.5596	0.5636	0.5675	0.5714
0.20	0.5793	0.5832	0.5871	0.5910	0.5948	0.5987	0.6026	0.6064	0.6103
0.30	0.6179	0.6217	0.6255	0.6293	0.6331	0.6368	0.6406	0.6443	0.6480
0.40	0.6554	0.6591	0.6628	0.6664	0.6700	0.6736	0.6772	0.6808	0.6844
…									
1.10	0.8643	0.8665	0.8686	0.8708	0.8729	0.8749	0.8770	0.8790	0.8810
1.20	0.8849	0.8869	0.8888	0.8907	0.8925	0.8944	0.8962	0.8980	0.8997
1.30	0.9032	0.9049	0.9066	0.9082	0.9099	0.9115	0.9131	0.9147	0.9162
1.40	0.9192	0.9207	0.9222	0.9236	0.9251	0.9265	0.9279	0.9292	0.9306
…									
1.80	0.9641	0.9649	0.9656	0.9664	0.9671	0.9678	0.9686	0.9693	0.9699
1.90	0.9713	0.9719	0.9726	0.9732	0.9738	0.9744	0.9750	0.9756	0.9761
2.00	0.9772	0.9778	0.9783	0.9788	0.9793	0.9798	0.9803	0.9808	0.9812
2.10	0.9821	0.9826	0.9830	0.9834	0.9838	0.9842	0.9846	0.9850	0.9854

A variable is normally distributed with a mean of 2.00 and a variance of 16.00. Using the excerpt, the probability of observing a value of 7.40 or less is *closest* to:

A. 96.8%.
B. 91.2%.
C. 63.3%.

74. Which of the following is the *least likely* characteristic of the normal probability distribution? The normal probability distribution:

A. has kurtosis of 3.0.
B. has the same value for mean, median, and mode.
C. is more suitable as a model for asset prices than for returns.

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75. A financial contract offers to pay €1,200 per month for five years with the first payment made immediately. Assuming an annual discount rate of 6.5%, compounded monthly the present value of the contract is *closest* to:

A. €61,330.
B. €63,731.
C. €61,663.

76. 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:

A. 40%.
B. 60%.
C. 84%.

77. The following information is available on three portfolios:

Portfolio	**Mean Return on the Portfolio (%)**	**Standard Deviation of the Return on the Portfolio (%)**
D	10	20
E	18	15
F	6	3

The risk-free rate is 4%. The portfolio that has the *best* risk-adjusted performance as measured by the Sharpe ratio is:

A. Portfolio D.
B. Portfolio F.
C. Portfolio E.

78. The three main sources of return for commodities futures contracts *most likely* are:

A. collateral yield, roll yield, and spot price return.
B. convenience yield, dividend yield, and spot price return.
C. collateral yield, convenience yield, and roll yield.

79. The value at risk of an alternative investment is *best* described as the:

A. minimum amount of loss expected over a given time period at a given probability level.
B. time period during which a fixed amount is lost at a given probability level.
C. probability of losing a fixed amount of money over a given time period.

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80. Investors in alternative assets who seek liquidity are *most likely* to invest in:

A. real estate investment trusts.
B. private equity.
C. hedge funds.

81. The intrinsic value of an option is always zero:

A. when it is out of the money.
B. at expiration.
C. when its time value is zero.

82. An investor has purchased a share of stock for $190. A call option on this stock, expiring in seven months and with an exercise price of $200, is priced at $11.40. If the investor enters into a covered call now, the profit on this strategy if the stock price at expiration is $215 is *closest* to:

A. –$3.60.
B. $21.40.
C. $28.60.

83. A forward rate agreement (FRA) that expires in 180 days and is based on 90-day LIBOR is quoted at 2.2%. At expiration of the FRA, 90-day LIBOR is 2.8%. For a notional principal of $1,000,000, the payoff of this FRA is *closest* to:

A. $1,469.31.
B. $1,500.00.
C. $1,489.57.

84. A corporation issues five-year fixed-rate bonds. Its treasurer expects interest rates to decline for all maturities for at least the next year. She enters into a one-year agreement with a bank to receive quarterly fixed-rate payments and to make payments based on floating rates benchmarked on three-month LIBOR. This agreement is *best* described as a:

A. futures contract.
B. forward contract.
C. swap.

85. When purchasing a futures contract, the initial margin requirement is *best* described as the:

A. amount needed to finance the purchase of the underlying asset.
B. minimum account balance required as prices change.
C. performance bond ensuring fulfillment of the obligation.

86. Two parties agree to a forward contract on a non-dividend-paying stock at a price of $103.00. At contract expiration, the stock trades at $105.00. In a cash-settled forward contract, the:

A. short pays the long $2.00.
B. short pays the long $103.00.
C. long pays the short $105.00.

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87. The financial systems that are operationally efficient are *most likely* characterized by:

A. the use of resources where they are most valuable.
B. security prices that reflect fundamental values.
C. liquid markets with low commissions and order price impacts.

88. A market has the following limit orders standing on its book for a particular stock:

Buyer	Bid Size (# of shares)	Limit Price ($)	Seller	Offer Size (# of shares)	Limit Price ($)
1	500	18.5	1	200	20.2
2	300	18.9	2	300	20.35
3	400	19.2	3	400	20.5
4	200	20.1	4	100	20.65
5	100	20.15	5	200	20.7

If a trader submits an immediate-or-cancel limit buy order for 700 shares at a price of $20.50, the average price the trader would pay is *closest* to:

A. $20.35.
B. $20.58.
C. $20.50.

89. The following data pertain to a company that can be appropriately valued using the Gordon growth model. The dividend is expected to grow indefinitely at the existing sustainable growth rate.

EPS growth rate (three-year average)	7.50%
Current dividend per share	$3.00
Return on equity	15%
Dividend payout ratio	45%
Investors' required rate of return	16%

The stock's intrinsic value is *closest* to:

A. $41.90.
B. $34.62.
C. $37.94.

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90. The following information is available about a company:

Next year’s sales revenue	$180 million
Next year’s net profit margin	15%
Dividend payout ratio	60%
Dividend growth rate expected during Years 2 and 3	25%
Dividend growth rate expected after Year 3	5%
Investors' required rate of return	12%
Number of outstanding shares	8.1 million

The current value per share of the company’s common stock according to the two-stage dividend discount model is *closest* to:

A. $52.86.
B. $49.20.
C. $39.36.

91. A fund manager gathers the following data to assess a stock's potential for a possible addition to her portfolio:

Company’s net income	$20 million
Company’s equity at the beginning of the year	$140 million
Company’s weighted average cost of capital (WACC)	10.75%
Stock’s beta	1.80
Market risk premium	5.25%
Risk-free rate	3.50%
Fund manager’s required rate of return	13.60%

Which of the following is the *most* appropriate decision for the fund manager?

A. Invest in the stock because the required rate of return is greater than the company's WACC.
B. Invest in the stock because the company's ROE is greater than the required rate of return.
C. Do not invest in the stock.

92. Returns from a depository receipt are *least likely* affected by which of the following factors?

A. Exchange rate movements
B. Analysts' recommendations

C. Number of depository receipts

93. A stop-buy order is *most likely* placed when a trader:

A. wants to limit the loss on a long position.
B. thinks that the stock is overvalued.
C. wants to limit the loss on a short position.

94. 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. less price volatility than the underlying common shares.
C. preference dividends that are fixed contractual obligations of the company.

95. An investor who wants to estimate the enterprise value multiple (EV/EBITDA) of a company has gathered the following data:

Market value (MV) of debt	$10 million
Market capitalization	$45 million
Cash and short-term investments	$2.5 million
EBITDA	$15 million
Firm’s marginal tax rate	40%

The company’s EV/EBITDA multiple is *closest* to:

A. 2.5.
B. 5.8.
C. 3.5.

96. 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.

97. A fund manager compiles the following data on two companies:

	Company A	**Company B**
Return on assets (ROA)	10.9%	9.0%

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Return on equity (ROE)	15.4%	14.3%
Dividend payout ratio	0.35	0.30
Required rate of return	13.0%	12.4%
Weighted average cost of capital	11.8%	11.7%

The *best* conclusion the fund manager can make is that Company A's stock is more attractive than Company B's stock because of its:

A. greater financial leverage.
B. smaller price-to-earnings ratio (P/E).
C. higher dividend growth rate.

98. Which of the following statements is *most* accurate with respect to rebalancing and reconstitution of security market indices?

A. Turnover within an index results from a reconstitution but not from rebalancing.
B. A price-weighted index requires rebalancing more than a market-capitalization-weighted index.
C. Equal-weighted indices require frequent rebalancing.

99. Which of the following bonds is *most likely* to trade at a lower price relative to an otherwise identical option-free bond?

A. Putable bond
B. Callable bond
C. Convertible bond

100. If the yield-to-maturity on an annual-pay bond is 7.75%, the bond-equivalent yield is *closest* to:

A. 7.90%.
B. 7.61%.
C. 8.05%.

101. Compared with an otherwise identical option-free bond, when interest rates fall, the price of a callable bond will:

A. rise more.
B. fall less.
C. rise less.

102. A two-year spot rate of 5% is *most likely* the:

A. yield to maturity on a coupon-paying bond maturing at the end of Year 2.
B. coupon rate in Year 2 on a coupon-paying bond maturing at the end of Year 4.
C. yield to maturity on a zero-coupon bond maturing at the end of Year 2.

103. Credit spreads are *most likely* to narrow during:

A. economic contractions.

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B. a period of flight to quality.
C. economic expansions.

104. An investor is *least likely* exposed to reinvestment risk from owning a(n):

A. zero-coupon bond.
B. amortizing security.
C. callable bond.

105. Which bonds *most likely* rank the highest with respect to priority of claims?

A. Senior unsecured bond
B. Subordinated debt
C. Second lien debt

106. The duration and convexity of an option-free bond priced at $90.25 are 10.34 and 75.80, respectively. If yields increase by 200 bps, the percentage change of the price is *closest* to:

A. –17.65%.
B. –20.68%.
C. –23.71%.

107. A fixed-income security's current price is $101.45. The manager estimates that the price will rise to $103.28 if interest rates decrease 0.25% or fall to $100.81 if interest rates increase 0.25%. The security's effective duration is *closest* to:

A. 1.22.
B. 9.74.
C. 4.87.

108. The market value of an 18-year zero-coupon bond with a maturity value of $1,000 discounted at a 12% annual interest rate with semi-annual compounding is *closest* to:

A. $192.86.
B. $130.04.
C. $122.74.

109. Using the "Four Cs of Credit Analysis" framework, which of the following is the *least likely* factor to be considered under the category of "capacity"?

A. Level of competition
B. Industry fundamentals
C. History of fraud or malfeasance

110. A bond with a par value of $100 matures in 10 years with a coupon of 4.5% paid semiannually; it is priced to yield 5.83% and has a modified duration of 7.81. If the yield of the bond declines by 0.25%, the approximate percentage price change for the bond is *closest* to:

A. 1.95%.
B. 3.91%.
C. 0.98%.

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111. One limitation as to why using the average duration of the bonds in a portfolio does not properly reflect that portfolio's yield curve risk is that the approach assumes:

A. a non-parallel shift in the yield curve.
B. all the bonds have the same discount rate.
C. a parallel shift in the yield curve.

112. Consider two bonds that are identical except for their coupon rates. The bond that will have the highest interest rate risk *most likely* has the:

A. highest coupon rate.
B. coupon rate closest to its market yield.
C. lowest coupon rate.

113. All else being equal, the difference between the nominal spread and the Z-spread for a non-Treasury security will *most likely* be larger when the:

A. yield curve is steep.
B. yield curve is flat.
C. security has a bullet maturity rather than an amortizing structure.

114. Which of the following is *most likely* associated with an investor's ability to take risk rather than the investor's willingness to take risk?

A. The investor has a long investment time horizon.
B. Safety of principal is very important to the investor.
C. The investor believes earning excess returns on stocks is a matter of luck.

115. A portfolio manager decides to temporarily invest more of a portfolio in equities than the investment policy statement prescribes because he expects equities will generate a higher return than other asset classes. This decision is *most likely* an example of:

A. rebalancing.
B. tactical asset allocation.
C. strategic asset allocation.

116. A portfolio with equal parts invested in a risk-free asset and a risky portfolio will *most likely* lie on:

A. the efficient frontier.
B. the security market line.
C. a capital allocation line.

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. 0.09.
B. 0.16.
C. 0.01.

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118. Which of the following is *least likely* an assumption of the capital asset pricing model (CAPM)?

A. An investor can invest as much as he or she desires in any asset.
B. Investors are different only with respect to their unique holding periods.
C. Security prices are not affected by investor trades.

119. 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.

120. 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%.