Question block created by wizard

You have 180 minutes to complete this session.

1. Hui Chen, CFA, develops marketing materials for an investment fund he founded three years ago. The materials show the three-year, two-year and one-year returns for the fund. He includes a footnote that states in small print "Past performance does not guarantee future returns." He does not claim compliance with the GIPS standards in the disclosures or footnotes. He also includes a separate sheet showing the fund's most recent semiannual and quarterly returns, which notes that those returns have been neither audited nor verified. Has Chen *most likely* violated any Codes and Standards?

A. Yes, because he did not adhere to the Global Investment Performance Standards
B. No
C. Yes, because he included unaudited and unverified results

2. Umi Grabbo, CFA, is a highly regarded portfolio manager for Atlantic Advisors, a mid-sized mutual fund firm investing in domestic securities. She has watched the hedge fund boom and on numerous occasions suggested her firm creates such a fund. Senior management has refused to commit resources to hedge funds. Attracted by potential higher fees associated with hedge funds, Grabbo and several other employees begin development of their own hedge fund to invest in international securities. Grabbo and her colleagues are careful to work on the fund development only on their own time. Because Atlantic management thinks hedge funds are a fad, she does not inform her supervisor about the hedge fund creation. According to the *Standards of Practice Handbook*, Grabbo should *most likely* address which one of the Codes and Standards immediately?

A. Priority of Transactions
B. Disclosure of Conflicts
C. Additional Compensation Arrangements

3. Jiro Sato, CFA, deputy treasurer for May College, manages the Student Scholarship Trust. Sato issued a request for proposal (RFP) for domestic equity managers. Pamela Peters, CFA, a good friend of Sato, introduces him to representatives from Capital Investments, which submitted a proposal. Sato selected Capital as a manager based on the firm's excellent performance record. Shortly after the selection, Peters, who had outstanding performance as an equity manager with another firm, accepted a lucrative job with Capital. Which of the CFA charterholders violated the CFA Institute Standards of Professional Conduct?

A. Neither
B. Peters
C. Both

4. Francesca Ndenda, CFA, and Grace Rutabingwa work in the same department for New Age Managers, with Rutabingwa reporting to Ndenda. Ndenda learns that Rutabingwa received a Notice of Enquiry from the Professional Conduct Program at CFA Institute regarding a potential cheating violation when she sat for the CFA exam in June. As Rutabingwa's supervisor, Ndenda is afraid that Rutabingwa's behavior will be seen as a violation of the Code and Standards. Does Ndenda *most likely* have cause for concern?

A. No, not until Rutabingwa is found guilty of cheating
B. No, because her responsibilities do not apply
C. Yes

5. Ross Nelson, CFA, manages accounts for high-net-worth clients, including his own family's account. He has no beneficial ownership in his family's account. Because Nelson is concerned about the appearance of improper behavior in managing his family's account, when his firm purchases a block of securities, Nelson allocates to his family's account only those shares that remain after his other client accounts have their orders filled. The fee for managing his family's account is based on his firm's normal fee structure. According to the *Standards of Practice Handbook*, Nelson's best course of action with regard to management of his family's account would be to:

A. remove himself from any direct involvement by transferring responsibility for this account to another investment professional in the firm.
B. treat the account like other employee accounts of the firm.
C. treat the account like other client accounts.

6. Norman Bosno, CFA, acts as an outside portfolio manager to a sovereign wealth fund. Raphael Palmeti, a fund official, approaches Bosno to interest him in investing in Starlite Construction Company. He tells Bosno that if he approves a $2 million investment in Starlite by the fund, Bosno will receive a "bonus" that will make him wealthy. Palmeti also adds that if Bosno decides not to invest, he will lose the fund account. After doing a quick and simple analysis, Bosno determines the investment is too risky for the fund. If Bosno agrees to make the investment, which of the Standards of Professional Conduct is *least likely* to be violated?

A. Additional Compensation Arrangements
B. Diligence and Reasonable Basis
C. Loyalty, Prudence, and Care

7. What is the theory that *best* describes the process by which financial analysts combine material public information and nonmaterial nonpublic information as a basis for investment recommendations, even if those conclusions would have been material inside information had they been communicated directly to the analyst by the company?

A. Mosaic theory
B. Economic theory
C. Probability theory

8. A central bank fines a commercial bank it supervises for not following statutory regulations regarding nonperforming loan provisions on three large loans as a result of the bank's loan provisioning policy. Louis Marie Buffet, CFA, sits on the board of directors of the commercial bank as a non-executive director, representing minority shareholders. He also chairs the bank's internal audit committee that determines the loan provisioning policy of the bank. Mercy Gatabaki, CFA, is the bank's external auditor and follows international auditing standards whereby she tests the loan portfolio by randomly selecting loans to check for compliance in all aspects of central bank regulations. Which charterholder is *most likely* in violation of the Code and Standards?

A. Gatabaki
B. Buffet
C. Both

9. Atlantic Capital Management has access to a limited number of shares in a popular new issue expected to be oversubscribed. Atlantic's portfolio managers have determined the issue to be a prudent addition to Atlantic's developing growth equity strategy. A number of the firm's investment professionals have family-member accounts that are managed to the developing growth strategy. Which of the following allocation options *most likely* adheres to the Code and Standards? Atlantic should allocate the shares:

A. on a prorated basis across all developing growth accounts, including the family-member accounts.
B. on a prorated basis across all developing growth accounts, excluding the family-member accounts.
C. to family-member accounts only after non-family accounts have been allocated their shares.

10. Jean-Luc Schlumberger, CFA, is an independent research analyst providing equity research on companies listed on exchanges in emerging markets. He often incorporates statistical data he obtains from the web sites of the World Bank and the central banks of various countries into the body of his research reports. Although not indicated within the reports, whenever his clients ask where he gets his information, he informs them that the information is in the public domain but he does not keep his own records. When the clients ask for the specific web site addresses, he provides the information. Which Standard has Schlumberger *least likely* violated?

A. Performance Presentation
B. Record Retention
C. Misrepresentation

11. Madeline Smith, CFA, was recently promoted to senior portfolio manager. In her new position, Smith is required to supervise three portfolio managers. Smith asks for a copy of her firm's written supervisory policies and procedures but is advised that no such policies are required by regulatory standards in the country where Smith works. According to the *Standards of PracticeHandbook*, Smith's *most* appropriate course of action would be to:

A. decline to accept supervisory responsibility until her firm adopts procedures to allow her to adequately exercise such responsibility.
B. require her firm to adopt the CFA Institute Code of Ethics and Standards of Professional Conduct.
C. require the employees she supervises to adopt the CFA Institute Code of Ethics and Standards of Professional Conduct.

12. Lee Chu, a CFA candidate, develops a new quantitative security selection model exclusively through back-testing on the Chinese equity market. Chu is asked to review marketing materials that include an overview of the conceptual framework for his model, provide back-tested performance results, and list the top holdings. Chu directs the marketing group to remove the description of his model because of concerns that competitors may attempt to replicate his investment philosophy. He also instructs the marketing group to remove the list of the top holdings because it shows that the top holding represents 30% of the back-tested model. Which of the following actions is *least likely* to result in a violation of the Code and Standards? Chu's:

A. failure to disclose that the top holding represents such a large allocation in the model
B. failure to adequately describe the investment process to prospective clients
C. use of back-tested results in communication with prospective clients

13. Amanda Covington, CFA, works for McJan Investment Management. McJan employees must receive prior clearance of their personal investments in accordance with McJan's compliance procedures. To obtain prior clearance, McJan employees must provide a written request identifying the security, the quantity of the security to be purchased, and the name of the broker through which the transaction will be made. Precleared transactions are approved only for that trading day. As indicated below, Covington received prior clearance.

Security	Quantity	Broker	Prior Clearance
A	100	Easy Trade	Yes
B	150	Easy Trade	Yes

Two days after she received prior clearance, the price of Stock B decreased, so Covington decided to purchase 250 shares of Stock B only. In her decision to purchase 250 shares of Stock B only, did Covington violate any CFA Institute Standards of Professional Conduct?

A. No
B. Yes, relating to diligence and reasonable basis
C. Yes, relating to her employer's compliance procedures

14. Heidi Katz is a CFA candidate and an analyst at a pension consulting firm. Her father is a major shareholder and managing director at Saturn Partners, a large hedge fund. When assisting in an alternative manager search for a pension client, Katz plans to recommend Saturn's market-neutral strategy because she believes it meets all of the pension plan's criteria. Given this situation, the best course of action for Katz is to:

A. not present this strategy to the client and recommend another strategy.
B. disclose the potential conflict to her employer and follow their guidance regarding disclosure of her relationship to the client.
C. disclose the potential conflict to the pension client when discussing this recommendation.

15. While waiting in the business class lounge before boarding an airplane, Becca Msafari, CFA, an equity analyst, overhears a conversation by a group of senior managers, including members of the board, from a large publicly listed bank. The managers discuss staff changes necessary to accommodate their regional expansion plans. Msafari hears several staff names mentioned. Under what circumstances could Msafari *most likely* use this information when making an investment recommendation to her clients? She can use the information:

A. if she does not breach the confidentiality of the names of the staff.
B. if the discussed changes are unlikely to affect investor perception of the bank.
C. under no circumstances.

16. Rebecca Wong is enrolled to take the Level I CFA exam. Her friend William Leung purchased Level I study materials from a well-known CFA review program the previous year. Leung made a photocopy of the previous year's copyrighted materials and sold it to Wong to help her study. Who *most likely* violated the CFA Institute Code of Ethics or any Standards of Professional Conduct?

A. Neither violated.
B. Only Leung violated.
C. Both violated.

17. Claire Jones, CFA, is an analyst following natural gas companies in the United States. At an industry energy conference, the chief financial officer of Alpine Energy states that the company is interested in making strategic acquisitions. At a separate event, Alpine's head of exploration commented that he is bullish on natural gas production prospects within northeastern Pennsylvania. Jones is aware that Alpine currently has very little exposure to this region. She also knows another company in her universe, Pure Energy, Inc. is based in northeastern Pennsylvania and controls significant assets in the area. Pure Energy is highly leveraged, and Jones believes it will need to raise additional capital or partner with another firm to move to the production phase with their assets. Jones attempts to contact Alpine's chief executive officer with an unrelated question and is told he is unavailable because he is on a business trip to northeastern Pennsylvania. Jones updates her research on Pure Energy and then recommends the stock to Lisa Wong, CFA, a portfolio manager, who purchases significant positions in client accounts. The following week, Pure Energy announces it has entered into an agreement to be purchased by Alpine for a significant premium. Has either Jones or Wong *most likely* violated standards with regard to the integrity of capital markets?

A. No
B. Yes, both Jones and Wong have acted on insider information
C. Yes, Jones' recommendation is based on insider information

18. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, trading on material nonpublic information is *least likely* to be prevented by establishing:

A. firewalls.
B. personal trading limitations.
C. selective disclosure.

19. An analyst collects data relating to five commonly used measures of leverage and interest coverage for a randomly chosen sample of 300 firms. The data comes from those firms' fiscal year 2012 annual reports. This data are *best* characterized as:

A. cross-sectional data.
B. longitudinal data.
C. time-series data.

20. Common stock prices are approximately lognormally distributed. Therefore, it is *most likely* that conventional (discrete) common stock prices are:

A. leptokurtic.
B. skewed to the right.
C. skewed to the left.

21. Given a large random sample, which of the following types of data are *least* appropriately analyzed with nonparametric tests?

A. Ranked data (e.g., 1st, 3rd)
B. Signed data (e.g., number of +'s and –'s)
C. Numerical values (e.g., 28.43, 79.11)

22. An analyst determines that 60% of all U.S. pension funds hold hedge funds. In evaluating this probability, a random sample of 10 U.S. pension funds is taken. Using the binomial probability function, the probability that exactly 6 of the 10 firms in the sample hold hedge funds is *closest* to:

A. 11.2%.
B. 25.1%.
C. 60.0%.

23. The *least* accurate statement about measures of dispersion for a distribution is that the:

A. arithmetic average of the deviations around the mean will be equal to one.
B. mean absolute deviation will be either less than or equal to the standard deviation.
C. range provides no information about the shape of the data distribution.

24. With Bayes' formula, it is possible to update the probability for an event given some new information. Which of the following *most* accurately represents Bayes' formula?

A. $P(\text{Event} \mid \text{Information}) = \dfrac{P(\text{Information})}{P(\text{Information} \mid \text{Event})} P(\text{Event})$

B. $P(\text{Event} \mid \text{Information}) = \dfrac{P(\text{Information} \mid \text{Event})}{P(\text{Event})} P(\text{Information})$

C. $P(\text{Event} \mid \text{Information}) = \dfrac{P(\text{Information} \mid \text{Event})}{P(\text{Information})} P(\textit{Event})$

25. An analyst gathers the following information about the performance of a portfolio ($ millions):

Quarter	**Value at Beginning of Quarter (Prior to Inflow or Outflow)**	**Cash Inflow (Outflow) at Beginning of Quarter**	**Value at End of Quarter**
1	2.0	0.2	2.4
2	2.4	0.4	2.6
3	2.6	(0.2)	3.2
4	3.2	1.0	4.1

The portfolio's annual time-weighted rate of return is *closest* to:

A. 8%.
B. 27%.
C. 32%.

26. When dealing with mutually exclusive projects, the *most* reliable decision rule is:

A. IRR.
B. time-weighted rate of return.
C. NPV.

27. A group of fund analysts have to select the first, second, and third best fund manager of the year for 2012 based on their subjective judgment. If 10 fund managers are candidates for the three awards, the number of ways in which each analyst can make his ranking is *closest* to:

A. 120.
B. 30.
C. 720.

28. A major investment data service provides information on analysts' performance using the following scale:

Outstanding	Strong	Average	Below Average	Poor
1	2	3	4	5

The *most* appropriate test to determine whether the analysts' average performance differed between two consecutive 10-year periods is a:

A. sign test.
B. Mann-Whitney U-test.
C. Wilcoxon signed-rank test.

29. A consultant starts a project today that will last for three years. Her compensation package includes the following:

Year	End-of-Year Payment
1	$100,000
2	$150,000
3	$200,000

If she expects to invest these amounts at an annual interest rate of 3%, compounded annually until her retirement 10 years from now, the value at the end of 10 years is *closest* to:

A. $566,466.
B. $618,994.
C. $460,590.

30. An increase in which of the following items will *most likely* result in a wider confidence interval for the population mean?

A. Degrees of freedom
B. Sample size
C. Reliability factor

31. The bond-equivalent yield for a semi-annual pay bond is *most likely*:

A. equal to the effective annual yield.
B. more than the effective annual yield.
C. equal to double the semi-annual yield to maturity.

32. An analyst determines that approximately 99% of the observations of daily sales for a company are within the interval from $230,000 to $480,000 and that daily sales for the company are normally distributed. If approximately 99% of all the observations fall in the interval $\mu \pm 3\sigma$, then using the approximate *z*-value rather than the precise table, the standard deviation of daily sales for the company is *closest* to:

A. $62,500.
B. $41,667.

C. $83,333.

33. A risk manager would like to calculate the coefficient of variation of a portfolio. The following table reports the annual returns of the portfolio and of the risk-free rate over the most recent five years:

Year	Portfolio Return	Risk-Free Rate
1	4.0%	2.0%
2	–1.0%	1.5%
3	7.0%	1.0%
4	11.0%	1.0%
5	2.0%	0.5%

The coefficient of variation of the portfolio is *closest* to:

A. 0.90.
B. 0.74.
C. 1.00.

34. An analyst gathered the following information about a stock index:

Mean net income for all companies in the index	$2.4 million
Standard deviation of net income for all companies in the index	$3.2 million

If the analyst takes a sample of 36 companies from the index, the standard error of the sample mean is *closest* to:

A. $400,000.
B. $533,333.
C. $88,889.

35. An economist states that the probability of having the gross domestic product (GDP) of a country higher than 3% is 0.20. What are the odds against a GDP higher than 3%?

A. 4 to 1
B. 5 to 1
C. 6 to 1

36. A trader determines that a stock price formed a pattern with a horizontal trendline that connects the high prices and a trendline with positive slope that connects the low prices. Given the pattern formed by the stock price, the trader will *most likely*:

A. purchase the stock because the pattern indicates a bullish signal.
B. avoid trading the stock because the pattern indicates a sideways trend.
C. sell the stock because the pattern indicates a bearish signal.

37. Relative to traditional investments, alternative investments are *most likely* to be characterized by higher:

A. liquidity.
B. fees.
C. transparency.

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

Initial investment capital	$100 million
Return at the end of one year	12%
Management fee based on assets under management	1%
Incentive fee based on the return net of the management fee	10%

Assume management fees are calculated using end-of-period valuation. The investor's net return given this fee structure is *closest* to:

A. 9.68%.
B. 10.88%.
C. 9.79%.

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

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

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

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

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

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

41. Which of the following hedge fund strategies is *most likely* categorized as an event-driven strategy?

A. Quantitative Directional
B. Fixed-Income Convertible Arbitrage
C. Merger Arbitrage

42. Which of the following characteristics of a target company is *likely* the *least* attractive for a leveraged buyout?

A. High leverage
B. Substantial amount of physical assets
C. Strong and sustainable cash flow

43. If the level of broad inflation indices is largely determined by commodity prices, the average real yield on direct commodity investments is *most likely*:

A. greater than zero.
B. equal to zero.
C. less than zero.

44. A hedge fund with an initial value of $100 million has a management fee of 2% and an incentive fee of 20%. Management and incentive fees are calculated independently using end-of-period valuation. The value must reach the previous high water mark before incentive fees are paid. The table below provides end-of-period fund values over the next three years.

	Fund Value ($ millions)	
Year	**Before Fees**	**After Fees**
1	120	113.6
2	110	107.8
3	125	?

The total amount of fees earned by the hedge fund in Year 3 is *closest* to:

A. $4.8 million.
B. $5.5 million.
C. $5.9 million.

45. The management fee of a private equity fund that has not yet invested all of its committed capital is *most likely* based on:

A. remaining capital.
B. committed capital.
C. invested capital.

46. Which of these is *best* classified as a forward commitment?

A. A convertible bond
B. A swap agreement
C. A call option

47. A European stock index call option has a strike price of $1,160 and a time to expiration of 0.25 years. Given a risk-free rate of 4%, if the underlying index is trading at $1,200 and has a multiplier of 1, then the lower bound for the option price is *closest* to:

A. $51.32.
B. $28.29.
C. $40.00.

48. The following information relates to a futures contract (in U.S. dollars):

Initial futures price on Day 0	100
Initial margin requirement	6
Maintenance margin requirement	3
Settlement price on Day 1	104
Settlement price on Day 2	99
Settlement price on Day 3	98

If no funds are withdrawn and margin calls are met at the beginning of the next day, the ending margin account balance on Day 3 for an investor with a short position of 10 contracts is *closest* to:

A. $120.
B. $80.
C. $90.

49. In what way is the payoff of a forward rate agreement *most likely* different from the payoff of an interest rate option? It is:

A. paid immediately when the contract expires.
B. based on a notional principal amount.
C. based on a fixed exercise rate.

50. An investor purchases an equity call option priced at CHF3 with an exercise price of CHF41. If at expiration of the option, the underlying is priced at CHF38, the profit for the investor's position is *closest* to:

A. –CHF6.
B. CHF0.
C. –CHF3.

51. An investor purchases a three-month put option on a stock with an exercise price of $35.00. The risk-free rate is 4.50%. At expiration, the stock price is $33.50. The option's payoff is *closest* to:

A. $1.48.
B. $0.
C. $1.50.

52. An investor who holds a long position in a futures contract will *most likely* receive a margin call if the ending balance in his margin account falls below the:

A. variation margin.
B. initial margin requirement.
C. maintenance margin requirement.

53. An investor enters into a 1 x 3 forward rate agreement at a LIBOR rate of 1.5%. At expiration, the 60-day LIBOR rate is 1.7% and the 90-day LIBOR rate is 1.6%. Assuming the contract covers a $1 million notional principal, what payment will the investor *most likely* receive?

A. $249.00
B. $332.39
C. $333.33

54. Compared with a futures contract, a forward contract is *most likely* to be more:

A. publicized.
B. customized.
C. liquid.

55. Which of the following statements *best* describes a feature of an options contract? In an options contract:

A. both the long and the short can default.
B. only the long can default.
C. only the short can default.

56. At the initiation of a contract, the value of a swap is:

A. the present value of the fixed payments.
B. the notional value.
C. zero.

57. A 1 x 3 forward rate agreement on Eurodollar time deposits *most likely* expires in:

A. three months and is based on 30-day LIBOR.
B. one month and is based on 90-day LIBOR.
C. one month and is based on 60-day LIBOR.

58. Margin in the futures market is *most* accurately described as a:

A. down payment from the futures trader.
B. loan to the futures trader.

C. requirement set by federal regulators.

59. When the underlying stock price is $95, an investor pays $2 for a call option with an exercise price of $95. If the stock price moves to $96, the intrinsic value of the call option would be *closest* to:

A. $1.
B. $0.
C. -$1.

60. A firm reports negative earnings for the year just ended. The price multiple of the firm's stock that is *least likely* to be meaningful is:

A. leading price to earnings.
B. price to cash flow.
C. trailing price to earnings.

61. An analyst gathered the following information about a company:

Current earnings per share	$6.00
Current dividend per share	$2.40
Current market price per share	$35
Required rate of return on the stock	15.0%
Expected growth rate of earnings and dividends	8.0%

Which of the following statements best describes the company's price-to-earnings ratio (P/E)? Compared with the company's trailing P/E, the P/E based on the Gordon growth dividend discount model is:

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

62. Which of the following is most likely a characteristic of real assets?

A. High liquidity
B. Homogeneity
C. Substantial management costs

63. An equity index consists of three securities with market information as follows:

Security	Shares Outstanding	Price at Beginning of Period	Price at End of Period	Dividend per Share
A	5,000,000	$10.00	$9.50	$1.00
B	2,000,000	$20.00	$21.50	$0.80
C	1,500,000	$30.00	$33.00	$0.60

The price-weighted total return index is *closest* to:

A. 6.7%.
B. 10.7%.
C. 9.5%.

64. An analyst gathers the following data about a company and the market:

Earnings per share in most recent year	$2.00
Expected dividend growth rate	5.10%
Dividend payout ratio	60%
Stock's beta	1.50
Market risk premium	5.60%
Risk-free rate	4.20%
Company's weighted average cost of capital	12.00%

Using the dividend discount model, the company's price per share is *closest* to:

A. $18.28.
B. $16.00.
C. $16.82.

65. An investor opens a margin account with an initial deposit of $5,000. He then purchases 300 shares of a stock at $30 each on margin, and his account requires a maintenance margin of 30%. Ignoring commissions and interest, the price at which the investor will receive a margin call is closest to:

A. $19.05.
B. $23.08.
C. $23.81

66. A company's $100 par value perpetual preferred stock has a dividend rate of 7% and a required rate of return of 11%. The company's earnings are expected to grow at a constant rate of 3% per year. If the market price per share for the preferred stock is $75, the preferred stock is *most* appropriately described as being:

A. overvalued by $11.36.
B. undervalued by $15.13.
C. undervalued by $36.36.

67. When constructing a list of peer companies to be used in equity valuation, which of the following would *least likely* improve the group? Companies in the same peer group should ideally:

A. have similar valuations.
B. have the effects of finance subsidiaries minimized.
C. be exposed to similar stages in the business cycle.

68. Which of the following is *most* likely associated with secondary capital markets?

A. Lead underwriters
B. Book building
C. Continuous trading

69. Participating preference shares are *least likely* to entitle the shareholders to participate in:

A. additional distribution of the company's assets upon liquidation.
B. corporate decisions through voting rights.
C. additional dividends if the company's profits exceed a predetermined level.

70. An investor opens a margin account with an initial deposit of $5,000. He then purchases 300 shares of a stock at $30 each on margin, and his account requires a maintenance margin of 30%. Ignoring commissions and interest, the price at which the investor will receive a margin call is *closest* to:

A. $23.08.
B. $19.05.
C. $23.81.

71. Which of the following *most* accurately describes the basis for construction of nearly all bond market indices?

A. Dealer prices
B. Model prices
C. Market prices

72. Which of the following statements concerning the use of industry analysis is most accurate? Industry analysis is *most* useful for:

A. portfolio performance attribution.
B. evaluating market efficiency.
C. sector allocations in passive equity portfolios.

73. An investor gathers the following information about a company:

Current dividend per share	$3
Historical annual dividend growth rate	4%
Expected annual dividend growth rate for the next three years	8%
Expected stock value per share at the end of Year 3	$33

If the investors' required rate of return is 15%, the current estimate of the intrinsic value per share is *closest* to:

A. $29.65.
B. $29.08.
C. $28.36.

74. A company's market information and balance sheet data at the end of fiscal year 2012 are as follows:

Price per Share and Shares Outstanding			
Current market price per share	$15.0		
Number of shares outstanding (millions)	1.0		
Balance Sheet Data As of 2012 ($ millions)			
Cash and cash equivalents	0.4	Current liabilities	1.0
Accounts receivable	1.2	Long-term liabilities	61.0
Inventories	40.0		
Investment securities	6.0	Common shareholders' equity	15.6
Property, plant, and equipment	30.0		
Total assets	**77.6**	**Total liabilities and equity**	**77.6**

If an analyst estimates that the market value of the company's investment securities is 115% of their reported value, the company's ratio of price to adjusted book value is *closest* to:

A. 1.10.
B. 0.91.
C. 0.96.

75. A company's selected data are as follows:

	Fiscal Year Ending		
	2010	**2011**	**2012**
Net income	$1,230,000	$1,414,500	$1,980,300
Total shareholders' equity	11,000,000	11,550,000	15,015,000

Assuming that the company experiences volatile year-end book values of equity, its ROE for the year 2012 is *closest* to:

A. 14.91%.
B. 17.15%.
C. 13.19%.

76. The weak-form market efficiency *most* accurately assumes that current security prices:

A. adjust rapidly to the release of all public information.
B. fully reflect all past market information, including transactions by exchange specialists.
C. fully reflect all information from public and private sources.

77. An industry characterized by rapidly increasing demand, improving profitability, and falling prices is *most likely* in which of the following stages of life cycle?

A. Growth
B. Maturity
C. Embryonic

78. In the semistrong form of market efficiency, fundamental analysis *most likely* requires the analyst to:

A. extrapolate historical data to estimate future values and make investment decisions.
B. do a superior job of estimating the relevant variables and predicting earnings surprises.
C. use trading rules for detecting the price movements that lead to new equilibrium prices.

79. An investor gathers the following information about a company:

Current earnings per share	\$5.00
Current dividend per share	\$3.00
Required rate of return	15.0%
Return on equity (ROE)	17.5%

Using the dividend discount model, the value of the company's stock is *closest* to:

A. \$73.67.
B. \$40.13.
C. \$37.50.

80. The following market information relates to a company:

Market price per share	$37.80
Number of shares outstanding	1,000,000
Net income	$5,250,000
Total common equity	$35,000,000
Total annual dividend paid	$1,512,000
Risk-free rate	2.60%
Market risk premium	8.00%
Beta	1.05

Using the capital asset pricing model (CAPM), the company's cost of equity is closest to:

A. 12.4%.
B. 11.0%.
C. 15.0%.

81. A behavioral bias in which an investor assesses probabilities of outcomes depending on how similar they are to the current state is called:

A. narrow framing.
B. representativeness.
C. conservatism.

82. The behavioral bias in which investors tend to avoid realizing losses but rather seek to realize gains is *best* described as:

A. mental accounting.
B. the disposition effect.
C. the gambler's fallacy.

83. An investor borrows the maximum amount allowed by the initial margin requirement of 40% to purchase 100 shares of a stock selling at $60 per share. If the investor sells the stock when its price increases to $70 per share, her return before commissions and interest will be *closest* to:

A. 41.7%.
B. 27.8%.
C. 16.7%.

84. A price-weighted index series is composed of the following three stocks:

Stock	Price before Split End of Day 1	Price after Split End of Day 2
X	$10	$12
Y	$20	$19
Z	$60	$22

If stock Z completes a three-for-one split at the end of Day 1, the value of the index after the split (at the end of Day 2) is *closest* to:

A. 31.7.
B. 29.9.
C. 32.3.

85. The duration and convexity of an option-free bond priced at $90.25 are 10.34 and 151.60, respectively. If yields increase by 200 bps, the percentage price change is *closest to:*

A. –23.71%.
B. –20.68%.
C. –17.65%.

86. Which of the following factors will *most likely* drive the repo margin lower?

A. Lower quality of the collateral
B. Lower credit quality of the counterparty
C. Shorter supply of the collateral

87. The Zera Company has borrowed capital by issuing a number of different securities. Which of the following *most likely* ranks the highest with respect to priority of payments?

A. Third lien debt
B. Subordinate loan
C. Senior unsecured bond

88. Which of the following statements is *least* accurate regarding the factors that affect the interest rate risk characteristics of an option-free bond?

A. The higher the yield, the greater the bond's price sensitivity to changes in interest rates.
B. The lower the coupon rate, the greater the bond's price sensitivity to changes in interest rates.
C. The longer the bond's maturity, the greater the bond's price sensitivity to changes in interest rates.

89. The bonds of Whakatane and Co. are priced for settlement on 15 July 2014 and have the following features.

Par value	$100.00
Annual coupon rate	8%
Coupon payment frequency	Semiannual
Coupon payment dates	15 May and 15 November
Maturity date	15 November 2017
Day count convention	Actual/Actual
Annual yield to maturity	5.5%

On the basis of this information, the *difference* between the full and flat prices is *closest* to:

A. 1.333.
B. 2.667.
C. 0.917.

90. The bonds of Apex Corporations have a par value of $10,000 each and an annual required rate of return of 10%. The bonds make quarterly coupon payments at an annual rate of 6% and have two years remaining until maturity. The current market price of each bond is *closest* to:

A. $9,283.
B. $10,749.
C. $9,306.

91. Zet Bank has entered into a contract with Louly Corporation in which Zet agrees to buy a 2.5% U.S. Treasury bond maturing in 10 years and promises to sell it back next month at an agreed-on price. From Zet Bank's perspective, this contract is *best* described as a:

A. collateralized loan.
B. repo.
C. reverse repo.

92. Which of the following is *least likely* to be a form of internal credit enhancement associated with a corporate bond issue?

A. Debt subordination
B. Letter of credit
C. Debt overcollateralization

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93. The option-free bonds of Argus Corporation have a duration of eight years. When interest rates rise by 100 bps, the bond's price declines by 7.9%. When interest rates fall by 100 bps, however, the price rises by 8.2%. The asymmetrical price change is *most likely* caused by the:

A. maturity effect.
B. coupon effect.
C. convexity effect.

94. The current yield for a 4.5% coupon, 10-year bond, with a maturity par value of $100 and currently priced at $85.70 is *closest to:*

A. 4.50%.
B. 5.93%.
C. 5.25%.

95. DMT Corp. issued a five-year floating-rate note (FRN) that pays a quarterly coupon of three-month LIBOR plus 125 bps. The FRN is priced at 96 per 100 of par value. Assuming a 30/360 day-count convention, evenly spaced periods, and constant three-month LIBOR of 5%, the discount margin for the FRN is *closest* to:

A. 221 bps.
B. 180 bps.
C. 400 bps.

96. Which one of the following is *least likely* to be an example of a Eurobond?

A. A Japanese company issuing euro-denominated bonds to investors domiciled in the United Kingdom
B. A U.K.-based company issuing Japanese yen-denominated bonds to investors domiciled in Japan
C. An Australian company issuing U.S. dollar-denominated bonds to investors domiciled in Japan

97. Eldora Ltd. recently issued deferred-coupon bonds for which no coupon payments will be paid in the first two years of the bond's life. Regular annual coupon payments at a rate of 9% will then be made until the bonds mature at the end of six years. The spot rates for various maturities are given in the following table.

Time to Maturity	Spot Rate
1 year	8.0%
2 years	7.5%
3 years	7.0%
4 years	6.5%
5 years	6.0%
6 years	5.5%

On the basis of these spot rates, the price of the bond today is *closest* to:

A. 100.12.
B. 108.20.
C. 116.24.

98. The maturity effect is *least likely* to hold for a:

A. low-coupon, long-term bond trading at a premium.
B. low-coupon, long-term bond trading at a discount.
C. zero-coupon bond.

99. Which type of fixed-income security is *most likely* to have coupon payments that reset periodically?

A. Floating-rate notes
B. Callable bonds
C. Convertible bonds

100. ABL Ltd. is an Australian company that has financed a joint venture project in Singapore using a 15-year, fixed-rate bond paying semi-annual coupons that are denominated in Singapore dollars. The bond's par value, to be paid at maturity, is denominated in U.S. dollars. This bond is an example of a:

A. currency option bond.
B. global bond.
C. dual-currency bond.

101. Which type of bond is *most likely* to be preferred by investors in a falling interest rate environment?

A. A floating-rate note with no cap or floor
B. A capped floating-rate note
C. A floored floating-rate note

102. In using matrix pricing to estimate the required yield spread on a new corporate bond issue, the benchmark rate used is *most likely* to be the:

A. coupon rate on a government bond with a similar time to maturity.
B. yield to maturity on a corporate bond with similar credit risk and time to maturity.
C. yield to maturity on a government bond with a similar time to maturity.

103. Which of the following 90-day money market instruments *most likely* offers the investor the highest rate of return?

Money Market Instrument	Quoted Rate	Quotation Basis	Day Convention
Instrument A	5.78%	360	Discount rate
Instrument B	5.80%	365	Discount rate
Instrument C	5.96%	365	Add-on rate

A. Instrument C
B. Instrument B
C. Instrument A

104. A "junk" bond is *most likely* a:

A. bond with credit rating above BBB−.
B. high-yield bond.
C. supranational bond.

105. When compared with an option-free bond, which type of bond *most likely* offers a higher yield to bondholders?

A. Callable
B. Convertible
C. Putable

106. Which of the following embedded options *most likely* provides a right to the issuer?

A. Call feature
B. Conversion provision
C. Put feature

107. Using the following information and assuming coupons are paid annually, the G-spread of the Steel Co. bond is *closest* to:

Bond	**Maturity**	**Coupon**	**Price**
Steel Co.	2 Years	5.00%	101.70
Treasury bond	2 Years	4.00%	100.50

A. 100 bps.
B. 36 bps.
C. 94 bps.

108. Which of the following is *least likely* to be a negative covenant associated with a coupon-paying corporate bond issue?

A. A requirement to hedge at least 50% of the firm's revenues generated from foreign sales
B. A prohibition from investing in long-term projects in emerging market countries
C. A requirement to pay withholding taxes to foreign governments in a timely manner

109. A security has a beta of 1.30. If the risk-free rate of interest is 3% and the expected return of the market is 8%, based on the capital asset pricing model (CAPM), the expected return of the security is *closest to*:

A. 9.5%.
B. 6.5%.
C. 13.4%.

110. Which of the following is *most likely* a feature of a defined contribution pension plan? The

A. employer accepts the investment risk.
B. employer provides a specified retirement benefit.
C. employee accepts the investment risk.

111. A factor that *most likely* measures a client's ability to bear risk is his or her:

A. time horizon.
B. inclination to independent thinking.
C. personality type.

112. Information about a portfolio that consists of two assets is provided below:

Asset	Portfolio Weight	Standard Deviation
A	25%	12%
B	75%	16%

If the correlation coefficient between the two assets is 0.75, the standard deviation of the portfolio is *closest* to:

A. 12.37%.
B. 14.39%.
C. 15.00%.

113. The slope of the security market line is *best* derived from the:

A. risk-free rate of return.
B. market risk premium.
C. beta of the security.

114. For a portfolio consisting of two assets and the correlation coefficient between these two assets is +1.0, it is *most likely* that portfolio risk is:

A. greater than the weighted average of the risk of the two assets in the portfolio.
B. equal to the weighted average of the risk of the two assets in the portfolio.
C. less than the weighted average of the risk of the two assets in the portfolio.

115. The following information is provided about a stock market index *m* and security *i:*

Statistic	Value
Covariance between market return and security return [Cov(R_i, R_m)]	0.01104
Correlation coefficient between market return and security return ($\rho_{i,m}$)	0.3
Standard deviation of market return (σ_m)	0.16

The beta of security *i*, β_i, is *closest* to:

A. 1.88.
B. 0.23.
C. 0.43.

116. A portfolio invested in two assets has an expected return of 11%. If expected returns for asset A and B, respectively, are 8% and 12%, then the portfolio weight of Asset B is *closest to*:

A. 25%.
B. 75%.
C. 50%.

117. An investment has a 50% probability of returning 12% and a 50% probability of returning 6%. An investor prefers this uncertain investment over a guaranteed return of 10%. This preference *most likely* indicates that the investor is risk:

A. averse.
B. seeking.
C. neutral.

118. An investor earns the following annual returns over a four- year period:

Year	**Annual Return**
1	12.2%
2	–8.5%
3	6.7%
4	–3.3%

The geometric mean annual return is *closest* to:

A. 1.78%.
B. 5.93%.
C. 1.45%.

119. Over a period of 16 months, an investor has earned a return of 12%. The investor's annualized return is *closest to*:

A. 9.00%.
B. 8.87%.
C. 9.38%.

120. With respect to the portfolio management process, the execution step *most likely* includes:

A. developing the investment policy statement.
B. portfolio monitoring.
C. asset allocation.