

Chartered Financial Analyst - CFA Institute Level I

1. The last day that the buyer of the share will receive the dividend is:

A. the last business day before the holder-of record date.

B. the last business day before the ex-dividend date.

C. the ex-dividend date.

Answer(s): B

2. Hollow candlesticks indicate:

A. buying pressure.

B. balanced market.

C. selling pressure.

Answer(s): A

3. All short sales:

A. I and II.

B. I and III.

C. I, II and III.

Answer(s): A

4. Which of the following is/are source(s) of economic inefficiency that arise under monopoly?

A. I and II.

B. II and III.

C. I, II and III.

Answer(s): C

5. According to GICS, the information technology sector includes industries such as:

A. I, II and III.

B. I only.

C. I and III.

Answer(s): C

6. Which of the following statements concerning the percentage-of-completion and completed-contract methods is CORRECT?

A. The completed contract and percentage of completion methods produce the same cash flow statements prior to completion of the contract.

B. The completed contract method produces greater net income during the period of construction than the percentage-of completion method.

C. The percentage of completion method produces lower liabilities and greater assets than the completed contract method.

Answer(s): C

7. Beaumont Bearings is analyzing two mutually exclusive projects with the following cash flows. Its cost of capital is 9%.

A. X: 6,320; Y: 5,648

B. X: 9,000; Y: 8,000

C. X: 7,339; Y: 2,752

Answer(s): A

8. A no-growth dividend discount model is:

A. Value = Price earnings ratio.

B. Equity = dividends / rate of return.

C. Value = market value of firm / book value of firm on replacement cost basis.

Answer(s): B

9. Assuming that an investment manager only has a small block of shares from a "hot" IPO. What is the best way for him to allocate this block according to the Standards of Professional Conduct on Fair

A. Allocate these shares pro-rata to all client portfolios for whom the issue is appropriate.

B. Allocate a large portion of the shares to institutional clients and a small share to the individual clients.

C. Allocate all of the shares to the firm's institutional clients.

Answer(s): A

10. Under the P/E method derived from the DDM, which of the following does not impact the P/E ratio?

A. I and III.

B. II only.

C. None of these.

Answer(s): C

11. Imagine a fictional derivative that pays \$100 on Christmas Day, but only if that day is a Sunday. Prior to introduction of this imaginary derivative, it was impossible to achieve this specific payoff. The new fictional derivative has:

A. increased market completeness

B. left market completeness unchanged

C. created an arbitrage opportunity

Answer(s): A

12. Suppose that $P(A) = 0.9$, $P(B) = 0.8$, and $P(B|A) = 0.6$. Find $P(A|B)$.

A. 0.480

B. 0.675

C. 0.720

Answer(s): B

13. Which statement is FALSE regarding the neutral interest rate?

A. It is not affected by short-term imbalances in the economy.

B. It is a fixed number for a country but it varies across different countries.

C. Different economists may come up with different neutral rates of interest for any given economy at any time.

Answer(s): B

14. The owners of a firm are earning economic profit if

A. return on their capital exceeds zero.

B. price exceeds average variable costs at the shutdown point.

C. they are earning a return on their capital that is higher than what can generally be earned (normal rate of return) in other markets.

Answer(s): C

15. An insurance company received prepaid insurance revenue of \$10,000 for next year from a local construction firm. The insurance company treats this as unearned revenue for financial reporting purposes. The local tax legislation requires that \$8,000 to be treated as taxable income for the current year. As a result, a _____ should be created.

A. Deferred tax liability of \$8,000.

B. Deferred tax liability of \$2,000.

C. Deferred tax asset of \$8,000.

Answer(s): C

16. The following figure shows Larry's indifference map and budget lines for ham and pork. Which of the following statements is TRUE?

A. Pork is an inferior good.

B. Ham is an inferior good.

C. Neither pork nor ham is an inferior good.

Answer(s): B

17. Which of the following will cause an increase in aggregate demand in the United States?

A. An increase in the real interest rate, or a decrease in the stock market share prices.

B. An increase in the pessimism of business and consumers about future economic conditions.

C. An increase in the expected rate of inflation.

Answer(s): C

18. Which statement is the most correct?

A. Portfolios affect risk more than return.

B. Portfolios affect return more than risk.

C. Portfolios affect both return and risk equally.

Answer(s): A

19. Which of the following Standards of Professional Conduct includes the ethical responsibility to not knowingly make any misrepresentations regarding investment analysis, recommendations, actions, or other professional activities?

A. Professionalism.

B. Duties to Clients.

C. Duties to Employers.

Answer(s): A

20. Which of the following statements is (are) true with the respect to the effects that business cycles will have on various types of industries?

A. III and IV.

B. I and IV.

C. II and III.

Answer(s): A
