
2017 CFA Level 1 Mock Exam

1. Which of the following is *least* accurate about the Code of Ethics? Members will:
 - A. place the integrity of the investment profession and the interest of clients above their own personal interests
 - B. practice and encourage others to practice in a professional and independent manner that will reflect credit on themselves.
 - C. promote the integrity and viability of the global capital markets for the ultimate benefit of society.

2. Hank is scheduled to visit the corporate headquarters of Micro Inc. to use the information he obtains there to complete his research report on Micro Inc.'s stock. Hank learns that Micro Inc. plans to pay all of Hank's expenses for the trip. Which of the following would be the *most* appropriate action for Hank under the Code and Standards?
 - A. Accept the expense-paid trip, but write an objective report.
 - B. Make his own employer pay for all normal travel expenses.
 - C. Accept the expense-paid trip but disclose the item in the report.

3. An investment banking department of a brokerage firm often receives material nonpublic information of its clients that could have significant value in advising the firm's brokerage clients. To comply with the Code and Standards, which one of the following is the *best* policy for the brokerage firm?
 - A. Permanently prohibit making recommendations concerning the stocks of the investment banking clients to the brokerage clients
 - B. Monitor the exchange of information between the investment banking department and the brokerage operation.
 - C. Establish physical barriers within the firm to prevent the exchange of information between the investment banking and brokerage operations

4. Hu, CFA, is a portfolio manager at a consulting firm that specializes in providing investment advice for the retired. Hu's parents is a fee-paying client with the firm. In addition, Hu does not have any beneficial interest in their account. To comply with the Standards, Hu's *most* appropriate action is to:
 - A. treat his parents' account in the same manner as his other clients' accounts.
 - B. refuse to manage his parents' account due to conflicts of interest. .
 - C. prioritize the trades for other clients' accounts above his parents' account.

5. Prior to resigning from AAA, Henry spends his spare time making the necessary preparation to start his own business. However, he takes a copy of his individual client list home in order to solicit the clients once he has officially left AAA. Has Henry *most likely* violated any CFA Institute Standards?

- A. No.
- B. Yes, by making preparation for independent practice while still employed.
- C. Yes, by taking client list without prior written consent from his employer.

6. Kelly, CFA, manages a hedge fund with a strategy to select growth stocks. Due to significant shift in global economy and national industry policy, Kelly changes her strategy. A day after implementing the change, Kelly tells her clients that the original strategy has been changed. Has she *most likely* violated the Standards?

- A. No.
- B. Yes, by failing to inform her clients in advance of the fund's investment style.
- C. Yes, by failing to distinguish between fact and opinions.

7. Will, CFA, works for ABC Brokerage. He intends to make a purchase recommendation on XYZ. Which of the following situations is *least likely* to represent a conflict of interest for Will that would have to be disclosed?

- A. Two senior officers of ABC are sitting on the board of XYZ.
- B. ABC holds a substantial common stock position in XYZ for its own account.
- C. Will's father-in-law is the CEO of a major supplier to XYZ.

8. Lin, CFA, manages a hedge fund. She states in her marketing materials that the firm employs only analysts who are CFA charterholders and ranked the highest in ethical and professional standard topic for CFA exam, so the firm is committed to the highest ethical standards. Has Lin *most likely* violated the Standards?

- A. No.
- B. Yes, relating to misrepresentation.
- C. Yes, relating to reference to CFA Institute, the CFA Designation, and the CFA program.

9. Which one of the following statements is *least* accurate concerning the objective of the GIPS?

- A. Achieve worldwide acceptance of a standard method of calculating and presenting investment

performance that is based on fair presentation and full disclosure.

B. Promote fair competition amongst global investment management firms in ways that do not create barriers to entry into the industry.

C. Encourage the idea that the investment industry regulates itself on a national basis.

10. An investor plans to purchase a bill with a face value of \$1,000 that matures in 9 months.

If the bill has a stated annual rate of 3%, compounded continuously, the bill's selling price is *closest* to:

A. \$979.85.

B. \$978.07.

C. \$977.75.

11. A portfolio has an expected return of 16% and a Sharpe ratio of 2. Given the risk-free rate of return is 4%, the portfolio has a coefficient of variation that is *closest* to:

A. 0.375.

B. 0.500.

C. 2.667.

12. The probability that Fund A beats the S&P 500 is 60%, and the probability that Fund A and Fund B both beat the S&P 500 is 24%. If the two funds returns are independent, the probability that at least one fund beats the market is *closest* to:

A. 60%.

B. 76%.

C. 84%.

13. If a normal distribution has a mean of 10 and a variance of 16, the probability of observing a value more than 14 is *closest* to:

A. 16%.

B. 32%.

C. 68%.

14. For a random sample of 100 companies, the mean return on equity is 20 percent with a population standard deviation of 15 percent. Given the appropriate reliability factor is 1.96, the lower limit of a 95 percent confidence interval for the population mean is *closest* to:

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- A. - 9.40%.
 - B. 17.06%.
 - C. 22.94%.

15. The alternative hypothesis is that the slope coefficient is greater than zero. The calculated test statistic is 1.5, and the critical value is 1.65 at the 5% significance level and is 1.28 at the 10% significance level. The analyst conducts a:

- A. one-tailed test and can reject the null hypothesis at 5% significance level.
- B. one-tailed test and can reject the null hypothesis at 10% significance level.
- C. two-tailed test and can reject the null hypothesis at 10% significance level.

16. In technical analysis, if a head and shoulders pattern has a neckline formed at \$18, the shoulder at 26, and the head at \$32, the price target is *closest* to:

- A. \$4.
- B. \$24.
- C. \$46.

17. A demand function for product X is:

$$QD_X = 1,000 - 2P_X + 9P_Y - 10P_Z + 0.400 \text{ income}$$

At current average prices, a Product X costs \$5, a Product Y costs \$20, and a Product Z costs \$4. Average income is \$4,000. The income elasticity of demand for Product X is *closest* to:

- A. 0.400.
- B. 0.586.
- C. 1,600.

18. The demand schedule in a perfectly competitive market is $P = 93 - 1.5Q$ ($Q \leq 62$) and the long-run cost structure of each company is:

$$\text{Total cost: } 256 + 2Q + 4Q^2$$

$$\text{Average cost: } 256/Q + 2 + 4Q$$

$$\text{Marginal cost: } 2 + 8Q$$

At long-term equilibrium, each company in the market will set a price *closest* to:

- A. 8.
- B. 66.
- C. 81.

19. From the beginning of year 1 to the end of year 5, the annual value of final goods and services for a country increased from \$100 billion to \$300 billion. Over the five years, the GDP deflator increased from 100 to 150. Over the period, real GDP for the country increased by:

- A. 50%.
- B. 100%.
- C. 200%.

20. Which of the following theories suggests that excessive optimism or pessimism among business managers causes business cycles and that contractions can persist because wages are slow to move downward?

- A. Neoclassical school.
- B. Keynesian school.
- C. New Keynesian school.

21. The *most likely* goal of a central bank's monetary policy is to:

- A. redistribute income and wealth.
- B. influence aggregate national output.
- C. ensure the stability of the purchasing power of its currency.

22. An analyst gathers the following information:

Spot Rate

CAD / USD 0.9771

USD / EUR 1.2228

The cross-rate CAD/EUR is *closest* to

- A. 0.7991.
- B. 1.1948.
- C. 1.2515.

23. Which of the following is *most likely* an element of the income statement?

- A. Prepaid expenses.
- B. Unearned revenue.
- C. Sales allowance.

24. 24. Shares of common stock	50,000
Net income for the year	\$100,000
Par value of a 6% coupon rate convertible bonds	\$300,000
Par value of a 10% dividend rate cumulative preferred stock	\$100,000
Tax rate	30%

The bonds can be converted into 18,000 common shares.

Diluted earnings per share for the year is *closest to*:

- A. \$1.51.
- B. \$1.66.
- C. \$1.80.

25. The unrealized gain for a held to maturity security is *most likely* recorded on:

- A. the income statement.
- B. the balance sheet.
- C. neither the income statement nor the balance sheet.

26. 2016 Jan 01 shareholders' equity	\$3,000,000
2016 Net income	\$300,000
2016 Shares issued	\$200,000
2016 Dec 31 shareholders' equity	\$4,000,000

If there was no dividends paid or shares repurchased, the other comprehensive income is *closest to*:

- A. \$500,000.
- B. \$800,000.
- C. \$1,100,000.

27. Issued preferred stock	\$90,000
Repurchased short-term bond	\$35,000
Receivables collection	\$20,000
Purchased a patent for cash	\$60,000

What is the combined effect of the above transactions on the cash flow from:

	operating activities?	financing activities?
A.	- \$40,000	+ \$55,000
B.	+ \$20,000	+ \$55,000
C.	- \$60,000	- \$95,000

28.		20X6	20X5
	Revenue	100,000	80,000
	Net income	25,000	24,000
	Average total assets	500,000	400,000
	Average equity	250,000	200,000

Using DuPont analysis, the change in return on equity is *best* explained by a change in:

- A. financial leverage.
- B. efficiency.
- C. profitability.

29. Assuming inventory quantities are increasing and inventory costs are falling. Which of the following is *most likely* lower under the weighted average cost method than under FIFO?

- A. Gross profit.
- B. Current ratio.
- C. Cost of goods sold.

30. A firm buys a piece of equipment with a cost of \$100,000, an estimated useful life of 4 years, and an estimated salvage value of \$10,000. Using the diminishing balance depreciation method and a 120% acceleration factor, the book value at the end of Year 2 is *closest* to:

- A. \$49,000.
- B. \$51,000.
- C. \$70,000.

31. Pre-tax accounting profit	\$80,000
Carrying amount of an asset	\$20,000
Tax base of the asset	\$18,000
Income tax rate	30%

Based on this information, the company *most likely* reports:

- A. a deferred tax asset of \$600.
- B. a deferred tax liability of \$600.
- C. income taxes payable of \$24,000.

32. A firm issues a 5-year callable bond at par. Two years later, the firm calls the bonds at 101.

A comparable 3-year option-free bond is trading at 102 when the callable bond is called.

The firm *most likely* experiences an:

- A. economic loss, and the income statement reports a loss.
- B. economic gain, and the income statement reports a loss.
- C. economic gain, and the income statement reports a gain.

33. At the end of the year 2016, a firm's defined benefit pension obligation has a present value of \$500,000, and the plan assets has a fair value of \$600,000, the reporting on its balance sheet would be *closest* to:

- A. \$500,000 in liabilities and \$600,000 in assets.
- B. \$100,000 in liabilities.
- C. \$100,000 in assets.

34. Accrued liabilities 300 Short-term debt 200 Current liabilities 500
Long-term debt 450 Deferred tax liabilities 250 Non-current liabilities 700
Shareholders' equity 800

If the analyst wants to sell the stock of any company with debt to equity ratio greater than 0.85 or financial leverage ratio greater than 3, will the stock be sold?

- A. No.
- B. Yes, the debt to equity ratio is too high.
- C. Yes, the financial leverage ratio is too high.

35. Units produced and sold 6,000
Degree of total leverage 6
Degree of financial leverage 3
Expected growth in units sold 5%

The expected growth in operating income is *closest* to:

- A. 15%.
- B. 10%.
- C. 30%.

36. A project has the following features:

Market value of debt \$3 million

Market value of equity \$7 million

Marginal tax rate 30%

If the asset beta of 1.30, the project beta is *closest* to:

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- A. 0.91.
 - B. 1.57.
 - C. 1.69.

37. Project	Profitability index	Initial investment
1	1.5	\$20,000
2	1.8	\$13,000
3	2.0	\$10,000

If the three mutually exclusive projects all have conventional cash flows, the *most* appropriate investment alternative is:

- A. Project 1.
- B. Project 2.
- C. Project 3.

38. The face value of a T-bill is \$1,000,000, the purchase price is \$990,000, and the term to maturity is 62 days. The bill's money market yield is *closest* to:

- A. 5.81%.
- B. 5.87%.
- C. 5.95%.

39. Current share price \$60.00 Earnings per share \$3.00
Before-tax cost of funds 7% Marginal tax rate 30%

The firm borrows funds to repurchase its own shares at the current price.

The firm's EPS after the share repurchase will *most likely*:

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

40. An investor purchases a stock at \$100 per share with a 50% initial margin and receives a margin call when the stock price drops below \$75. The maintenance margin requirement is *closest* to:

- A. 33%.
- B. 36%.
- C. 39%.

41. Which of the followings is *most* accurate about a strong form efficient market?

- A. Company insiders can consistently earn excess returns from trading on private information.
- B. Fundamental analysis can consistently generate abnormal returns.
- C. Passive portfolio management should outperform active management in the long run.

42. Firm	Beginning Share Price	Ending Share Price	Outstanding Shares
1	\$30	\$40	2,000
2	\$20	\$18	3,000
3	\$25	\$22	1,000

The price return of the price weighting index is *closest* to:

- A. 3.7%.
- B. 6.7%.
- C. 7.6%.

43. An investor owns 1,000 common shares and 500 preference shares in a company that is electing six board directors. The maximum number of votes the investor may cast for a single candidate is:

- A. 1,000 under statutory voting and 6,000 under cumulative voting.
- B. 1,500 under statutory voting and 6,000 under cumulative voting.
- C. 1,500 under statutory voting and 9,000 under cumulative voting.

44. Which of the following stages of an industry life-cycle model is *best* characterized by intense competition and declining profitability?

- A. shakeout stage.
- B. mature stage.
- C. decline stage.

45. Current dividend (D ₀)	\$2.00
Dividend growth rate: Years 1 and year 2	10%
Dividend growth rate: Year 3 and beyond	5%
Required rate of return on equity	8%
The stock's intrinsic value is <i>closest</i> to:	

- A. \$76.73.
- B. \$76.83.

C. \$84.70.

46. Which of the following statements is *least* accurate?

- A. A derivative is best described as a financial instrument that derives its performance by passing through the returns of the underlying.
- B. Compared with the underlying spot market, derivative markets are more likely to have greater liquidity, lower transaction costs, and lower capital requirements.
- C. Increased defaults by speculators is most likely to be a destabilizing consequence of speculation using derivatives.

47. If the present value of storage costs and protecting costs are less than the present value of its convenience yield, the commodity's forward price is *most likely*:

- A. less than the spot price compounded at the risk-free rate.
- B. the same as the spot price compounded at the risk-free rate.
- C. higher than the spot price compounded at the risk-free rate.

48. An investor paid \$5 for a call option that was in-the-money by \$3. If the price of the underlying asset was \$58 at the time the investor purchased the call option, the breakeven price of the call option was *closest* to:

- A. \$55.
- B. \$56.
- C. \$60.

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

- A. The embedded conversion option in a bond is most likely to benefit the bondholder when equity price rise.
- B. The embedded call option in a bond is most likely to benefit the bondholder when interest rates fall.
- C. The embedded put option in a bond is most likely to benefit the bondholder when interest rates rise.

50. Which of the following statements is *least* accurate?

- A. Non-sovereign bonds are issued by governments below the national level such as states, provinces, regions, or cities.

- B. Sovereign bonds are issued by national governments or their treasuries, backed by the taxing power of the government.
- C. Agency bonds are issued by multilateral agencies.

51. Firm	debt / capital	FFO / debt	debt / EBITDA	EBITDA / interest
1	42%	36%	2.2x	6.9x
2	44%	28%	3.8x	7.2x

Compared to Firm 1, Firm 2's credit rating is *most likely*:

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

52. Time period	Annual Forward Rate
0y1y	1.88%
1y1y	2.77%
2y1y	3.54%
3y1y	4.12%

The implied 3-year spot rate is *closest to*:

- A. 2.3240%.
- B. 2.7278%.
- C. 3.0741%.

53. An option-free bond has an annual modified duration of 9.42 and an annual approximate convexity of 136.66. If the bond's yield to maturity increases by 1%, the expected percentage price change is *closest to*:

- A. -8.7367%.
- B. -9.4200 %.
- C. -10.1033%.

54. Mortgage principal prepayment	\$1,000,000
Scheduled principal repayment	\$910,542
Gross coupon interest paid	\$3,562,500
Servicing fees	\$337,500
Other fees for guaranteeing the issue	\$58,333

The total cash flow to be passed through to the investors is *closest to*:

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- A. \$4,077,209.
 - B. \$5,077,209.
 - C. \$5,473,042

55. Ali Capital is a hedge fund with \$100 million of initial capital. Ali charges a 2% management fee based on assets under management at year end, and a 20% incentive fee based on returns in excess of an 5% hurdle rate. In its first year, Ali appreciates 30%. The investor's net return assuming the incentive fee is calculated net of the management fee is closest to:

- A. 21.40%.
- B. 21.92%.
- C. 22.92%.

56. Compared with traditional investments, alternative investments are *least likely* to be characterized by:

- A. high leverage and low diversification.
- B. high liquidity and low management fees.
- C. less regulation and less transparency.

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

- A. Defined benefit pension plans typically have lower risk tolerance than banks and property and casualty insurance companies.
- B. Endowments typically have longer time horizon than defined benefit pension plans and life insurance companies.
- C. Investment companies typically have lower liquidity needs than defined benefit pension plans and endowments.

58. Which of the following is *most* accurate about an investor's risk objective?

- A. Ability to accept risk is subjective, while willingness to accept risk is objective.
- B. Outperforming the S&P 500 by 100 basis points in 2017 is best described as a relative risk objective.
- C. Value at risk (VaR).can be used as an absolute risk measure.

59. An analyst obtains the following information for three funds:

Fund	Time since inception	Return since inception
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1	1 week	0.2%
2	15 days	0.4%
3	18 months	20%

The fund with the *lowest* annualized rate of return is:

- A. Fund 1.
- B. Fund 2.
- C. Fund 3.

60. Standard deviation of the security's return	20%
Standard deviation of the market portfolio's returns	10%
Correlation between return of the security and the market portfolio	0.75
Expected return on the market portfolio	10%
Risk-free rate	2%

Based on the capital asset pricing model (CAPM), the security's expected return is *closest* to:

- A. 14%.
- B. 15%.
- C. 17%.