CFA-LEVEL-1 Q&As

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QUESTION 1

An automobile manufacturer makes 2 different chassis, each of which can have 3 different body types and 8 colors. How many different looking cars can be made with these choices?

A. 40.

B. 24.

C. 13.

D. 48.

Correct Answer: D

The multiplication rule of counting states that the number of combinations available when there are n_1 options in one aspect, n_2 in another, and so on, up to n_k, is $n_1 * n_2 * ... * n_k$. In this case, the number of combinations is 2*3*8 = 48.

QUESTION 2

An investment recommendation can be disseminated to clients via each of the following methods, EXCEPT:

A. through a brief update report.

B. by addition to a recommended list.

C. by oral communication.

D. through an initial detailed research report.

E. by deletion from a recommended list.

F. all of these answers are acceptable methods.

Correct Answer: F

According to Standard IV (B.3) - Fair Dealing, an investment recommendation is any opinion expressed by a member in regard to purchasing, selling or holding a given security or other investment. All of the methods listed are acceptable for dissemination.

QUESTION 3

While studying abroad, United States citizen David Rees purchases a foreign bond with an annual coupon

of 8.0 percent for 94.0. He holds the bond for one year and then sells it for 93.0 before he leaves. During

the year, foreign currency appreciated 5.0% relative to the U.S. dollar.

Which of the following is closest to Rees\\'s Total Dollar Return?

A. 2.074%.

B. 7.447%.

C. 3.883%.

D. 12.819%.

Correct Answer: D

TheTotal Dollar Returnis calculated as follows:Step 1: Calculate the value change in the foreign currency:The foreign currencyappreciatedby 0.05, or 5.0%.

Step 2: Use the Total Dollar return formula to calculate the return:

R$= { [1+($coupon + VEND- VBEG)/ VBEG] * (1 + g) } - 1,

WhereR$=Total dollar return,VEND= Bond value at end of period,VBEG =Bond value at end of period,

andg= % change in thedollarvalue of the foreign currency.

Here,R$= { [1+(8.0 + 93.0 ?94.0)/94.0] * (1 + 0.05) } - 1

= { [1.074468] * (1.05) } - 1

= 0.12819, or12.819%

QUESTION 4

An increase in the required rate of return will have what effect on the earnings multipliers of common stocks? Further, what effect could be expected from an increase in the dividend payout ratio?

A. Earnings multipliers will decrease; earnings multipliers will increase

B. Earnings multipliers will increase; earnings multipliers will decrease

C. Earnings multipliers will remain unchanged; earnings multipliers will increase

D. Earnings multipliers will increase; earnings multipliers will increase

E. Earnings multipliers will decrease; earnings multipliers will decrease

Correct Answer: A

A simple method of determining the appropriate earnings multiplier for a common stock can be found by manipulating the Infinite Period Dividend Discount Model such that it resembles the following:

P/E = [(d1/e1) / (k - g)]

Where: P/E = the earnings multiplier expressed as the Price-to-Earnings Ratio, d1/e1 = the dividend payout ratio at t1, k = the required rate of return, and g = the anticipated annual growth rate.

As you can see, an increase in the required rate of return, holding everything else equal, will lead to a decrease in the earnings multiplier. Opposite this effect, an increase in the dividend payout ratio will lead to an increase in earnings multipliers.

QUESTION 5

With regard to international portfolios, if net performance is indicated, managers are required to disclose the assumed ________ for the benchmark.

A. hedge

B. disclosure

C. tax rate

D. differentials

E. currency effects

Correct Answer: C

To be in compliance with the AIMR-PPS, the performance presentation for international portfolios must disclose whether composites and benchmarks are presented gross or net of withholding taxes on dividends, interest and capital gains; if net, the assumed tax rate for both the composite and the benchmark.