CFA-LEVEL-1[Q&As]

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QUESTION 1

An AIMR member has violated one of the AIMR code of ethics standards. However, according to the laws of the country governing his behavior, he has done nothing wrong. Then,

A. AIMR can take disciplinary action against her.

B. AIMR cannot take disciplinary action against her.

C. there is no violation of the code since local laws were adhered to.

D. none of these answers.

Correct Answer: A

A member must always abide by the AIMR code, unless the local laws in any given case are stricter, in which case, the stricter standard applies. Standard I. Hence, every violation of the code of ethics is always subject to disciplinary action.

QUESTION 2

A cumulative frequency distribution on days absent during a calendar year by employees of a manufacturing company is shown below.

Days Absent Cumulative Number of Employees 0 - 260 3 - 531 6 - 814 9 - 116 12 - 142

How many employees were never absent?

A. None of these answers

B. 29

C. Cannot be determined from the given data

D. 31

E. 60

Correct Answer: C

We were given only the number of employees in the 0-2 group. So we do not know how many were never absent since this group includes those who were absent 1 and 2 days.

QUESTION 3

A company is considering a project with the following cash flows: TimeCash flow 0-$100,000 150,000 250,000 350,000 4-10,000 The project\\'s cost of capital is estimated to be 10 percent. What is the modified internal rate of return (MIRR)?

A. 11.25%

B. 20.34%

C. 14.25%

D. 11.56%

E. 13.28%

Correct Answer: C

First, calculate the present value of costs:

N = 4, I/YR = 10, PMT = 0, FV = -10,000, and solve for PV = -$6,830.13.

Add -$100,000 + -6,830.13 = -$106,830.13.

Then, find the terminal value of inflows:

Shift to BEGIN MODE, N = 3, I/YR = 10, PV = 0, PMT = -50,000, and solve for FV = $182,050.

Finally, shift back to END mode, and solve for MIRR, where N = 4, PV = $-106,830, PMT = 0, FV =

182,050, and solve for I/YR = 14.25%.

QUESTION 4

Karen Callaway is an investor in the 35% tax bracket. She is evaluating a tax-exempt municipal security with a tax-exempt yield of 4.5%. What is the taxable equivalent yield (TEY) of the municipal security?

A. 2.9%.

B. 6.9%.

C. 12.9%.

Correct Answer: C

QUESTION 5

A set of projects where only one can be accepted is known as _____.

A. Project Net Worth Optimization

B. Equity Enhancement

C. Independent Projects

D. Optimal Capital Budgeting

E. Mutually Exclusive Projects

Correct Answer: E

Mutually Exclusive Projects are defined as a set of projects where only one can be accepted.

QUESTION 6

An organization purchased a computer on January 1, 1996 for $108,000. It was estimated to have a 4year useful life and a salvage value of $18,000. The double-declining-balance method is to be used. The amount of depreciation to be reported for the year ending December 31, 1996 is _____.

A. ($108,000 - 18,000) (25% X 2)

B. ($108,000) (25% X 2)

C. ($108,000 - 18,000) (25% X 1/2)

D. ($108,000) (25%)

E. ($108,000) (25% X 1/2)

Correct Answer: B

When using a declining-balance method, a constant rate is applied to the changing carrying value of the asset. The constant rate for the double-declining-balance method is twice the straight-line rate ((100% / 4 years) X 2)

QUESTION 7

Studies have found that mutual fund managers tend to have

A. great market timing ability.

B. ignored the potential of market timing.

C. moderate market timing ability.

D. little market timing ability.

Correct Answer: D

Most studies in this area have found that funds could not consistently generate superior returns through attempts at market timing. In fact, many have found that mutual funds cannot outperform passive investment strategies.

QUESTION 8

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

A. tax rate

B. currency effects

C. hedge

D. disclosure

E. differentials

Correct Answer: A

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.

QUESTION 9

Which of the following are notations for the covariance between X and Y?

I. Cov(X,Y).

II. sigma_(X,Y)

III.

 [sigma_(X,Y)]^2.

A.

I only.

B.

II only.

C.

I and II.

D.

I and III.

Correct Answer: C

I and II are both notations for covariance between X and Y.

QUESTION 10

An analyst with Churn Brothers is examining shares of Microscam International, a multinational software firm, for possible investment. Shares of Microscam are anticipated to grow at a rate of 20% per year for the next two years, then grow at 15% in the third year. Thereafter, the growth rate of Microscam International is expected to be at 11% per year forever. Similar investments have warranted a 15% per year rate of return, and Microscam paid a dividend of $0.50 at t0. Using this information, what is the value of Microscam International common stock? Use the two-stage dividend discount model.

A. $16.72

B. $26.39

C. $21.39

D. $22.59

E. The answer cannot be calculated from the information provided.

F. None of these answers is correct.

Correct Answer: A

The multi-stage dividend discount model is a more realistic way of valuing fast-growing companies that pay dividends. With this model, it is necessary to estimate the above-average, or "supernormal" rate of growth, as well as the long-term rate of growth. Once these growth rates have been determined, they are used to calculate the dividends at various points in the future. In this example, you are provided with two supernormal growth rates, in addition to the long-term rate of growth, and the calculation is somewhat more complex than a situation characterized by a single supernormal growth rate. Nonetheless, the multistage dividend discount model can be applied.

The multi-stage dividend discount model is often referred to as the "two-stage dividend discount model," and these two titles should be considered interchangeable for all intents and purposes, i.e. the "two stage" dividend discount model can be used to determine the value of a company that has multiple growth rate changes.

Incorporating the given information into the multi-stage dividend discount model will yield the following: P = {[$0.50 * 1.20) / 1.15] + [($0.60 * 1.20) / 1.3225] + [($0.72 * 1.15) / 1.52087] + [($0.828 * 1.11) / (.15 11)]/1.52087}

which can further be developed into:

P = {$0.52174 + $0.54442 + $0.54442 + $15.11} = $16.72

QUESTION 11

BeigeBox, a computer manufacturer, can construct computer systems with any one of 4 processors, 2 memory configurations, 3 hard drives, 2 monitors, 2 keyboards, and 2 CD drives. How many unique configurations of computer systems can BeigeBox construct?

A. 192.

B. 96.

C. 384.

D. 64.

Correct Answer: A

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 4*2*3*2*2*2 = 192.

QUESTION 12

How should the effect of a change in accounting estimate be accounted for?

A. None of these answers.

B. By reporting pro forma amounts for prior periods.

C. In the period of change and future periods if the change affects both.

D. By restating amounts reported in financial statements of prior periods.

E. As prior-period adjustments to beginning retained earnings.

Correct Answer: C

The effect of a change in accounting estimate must be accounted for as a component of income from continuing operations in the period of change and in future periods.

QUESTION 13

How much would an original deposit of $900 grow to be after 10 and a half years, if the deposit earns interest at 6.5% per year, compounded quarterly?

A. $1,853.97

B. $1,254.58

C. $1,573.42

D. $1,771.19

E. $1,837.51

Correct Answer: D

On the BAII Plus, press 42 N, 6.5 divide 4 = I/Y, 900 PV, 0 PMT, then press CPT FV. On the HP12C, press 42 n, 6.5 ENTER 4 divide i, 900 PV, 0 PMT, then press FV. Note that N = 42 quarters (10.5 x 4 =) and the answer is displayed as a negative number. Make sure that the BAII Plus has the P/Y value set to 1.

QUESTION 14

A mortgage holding company has found that 1% of its mortgage holders default on their mortgage and lose the property. Furthermore, 90% of those who default are late on at least two monthly payments over the life of their mortgage as compared to 45% of those who do not default. What is the probability that a mortgagee with two or more late monthly payments will default on the mortgage and lose the property?

A. None of these answers

B. 0.019

C. 0.009

D. 0.020

E. 0.018

Correct Answer: D

We have P(def) = 0.01. P(not def) = 0.99. P(two late payments/def) = 0.90. P(two late payments/not def) =

0.45. Using Bayes formula: p(def/two late payments) = (0.01*0.9)/(0.01*0.9 + 0.99*0.45) = 0.0198 = 0.020.

QUESTION 15

Technical analysts would feel that an upside-downside volume ratio with a value of 1.7 indicates that the market is

A. breaching a resistance level.

B. breaching a support level.

C. is overbought.

D. entering a significant market upswing.

E. is oversold.

Correct Answer: C

Technical analysts may use the ratio of upside-downside volume as an indicator of short-term momentum for the market. They feel that a ratio value of 1.50 or more indicates that the market is overbought, while a ratio of 0.70 or less indicates that the market is oversold.

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