Sample - CFA Level I

Question 1

When an analyst makes an investment recommendation, which of the following statements must be disclosed to clients?

A) An employee of the firm holds a directorship with the recommended company.
B) The firm is a market maker in the stock of the recommended company.
C) Both of these statements must be disclosed to clients.

Question 2

While on a business trip, John Hayes, CFA, found a notebook that had apparently been left in the waiting area of an airport. Hayes opened the notebook and read the title: Confidential: Level II CFA Examination. Before returning the notebook to CFA Institute, he made a copy and gave it to Linda Sacket, one of his firm’s analysts, who was a candidate for Level II of the CFA examination. Hayes reasoned that CFA Institute would not use these questions and that Sacket would benefit from reviewing these questions. Sacket read the questions and guideline answers before taking the Level II examination. According to the CFA Institute Standards of Professional Conduct:

A) Hayes violated the Standards, but Sacket did not.
B) both Hayes and Sacket violated the Standards.
C) Sacket violated the Standards, but Hayes did not.

Question 3

Assume that a company has equal amounts of debt, common stock, and preferred stock. An increase in the corporate tax rate of a firm will cause its weighted average cost of capital (WACC) to:

A) rise.
B) fall.
C) more information is needed.

Question 4

A $100 par, 8% preferred stock is currently selling for $80. What is the cost of preferred equity?

A) 10.0%.
B) 10.8%.
C) 8.0%.
Question 5

The manager of the Fullen Balanced Fund is putting together a report that breaks out the percentage of the variation in portfolio return that is explained by the target asset allocation, security selection, and tactical variations from the target, respectively. Which of the following sets of numbers was the most likely conclusion for the report?

A) 50%, 25%, 25%.
B) 90%, 6%, 4%.
C) 33%, 33%, 33%.

Question 6

The graph below combines the efficient frontier with the indifference curves for two different investors, X and Y.

Which of the following statements about the above graph is least accurate?

A) Investor X is less risk-averse than Investor Y.
B) The efficient frontier line represents the portfolios that provide the highest return at each risk level.
C) Investor X's expected return will always be less than that of Investor Y.

Question 7

Which of the following is least likely one of the conditions that must be met for a trade to be considered an arbitrage?

A) There is no risk.
B) There are no commissions.
C) There is no initial investment.
Question 8

Given the covered call option diagram below and the following information, what are the dollar values for points X and Y? The market price of the stock is $70, the strike price of the call is $80, and the call premium is $5.

![Diagram of covered call option]

<table>
<thead>
<tr>
<th>Point X</th>
<th>Point Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) $80</td>
<td>$5</td>
</tr>
<tr>
<td>B) $80</td>
<td>$15</td>
</tr>
<tr>
<td>C) $75</td>
<td>$15</td>
</tr>
</tbody>
</table>

Question 9

Which of the following statements regarding hedge funds is least accurate?

A) Global macro funds make bets on the direction of a market, currency or interest rate.
B) Market-neutral hedge funds may have long and/or short positions.
C) Long/short funds have a net market neutral position.

Question 10

Johnson is considering the purchase of Happy Valley Acres, a 300-unit apartment complex. She has hired Carson, CFA, to advise her on the investment. Carson has estimated the following data for Happy Valley’s next accounting period:

- Potential rental income = $3.80 million.
- Vacancy rate = 3.5%.
Insurance costs = $250,000.
Financing costs = $940,000.
Property taxes = $400,000.
Utility expense = $120,000.
Repair costs = $200,000.
Depreciation = $350,000.
Required return = 8%.

The property’s net operating income (NOI) and value should be closest to:

<table>
<thead>
<tr>
<th>NOI</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) $2.83 million</td>
<td>$33.75 million</td>
</tr>
<tr>
<td>B) $2.70 million</td>
<td>$33.75 million</td>
</tr>
<tr>
<td>C) $2.70 million</td>
<td>$21.60 million</td>
</tr>
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</table>
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