

## CFA.CFA-Level-I.v2022-12-16.q776

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### NEW QUESTION: 1

The main reason for dollarization is:

- A. to improve the credit-worthiness of the central bank.
- B. greater stability in the value of the foreign currency over domestic currency.
- C. to follow the foreign country's monetary policy.

**Answer: B (LEAVE A REPLY)**

The downside is that the country gives up its right to influence its own monetary policy by adjusting the money supply.

### NEW QUESTION: 2

When does the selling price of long-term debt equal its maturity value?

- A. when the nominal interest rate is equal to the stated interest rate
- B. when the effective interest rate is equal to the nominal interest rate
- C. when the effective interest rate is equal to the market interest rate

**Answer: (SHOW ANSWER)**

When market rate (or the effective rate) of interest is equal to the stated interest rate, the bonds will sell for their face value (maturity value).

### NEW QUESTION: 3

Management's analysis of the past year is found in

- A. Form 10-K.
- B. the annual report.
- C. both of these.

**Answer: (SHOW ANSWER)**

Management's analysis of the past year is found in the company's annual report. However, since the annual report must be filed with the SEC on Form 10-K, management's analysis can also be found in the 10-K. Answer C, both of these, is correct.

**NEW QUESTION: 4**

Consider a normal distribution with  $\mu = 67$  and  $\sigma = 144$ . If each score is raised by 7 points, what percentage of the new scores is less than 74?

- A. 72%
- B. 88%
- C. 50%

**Answer: C (LEAVE A REPLY)**

Since each score has been raised by 7 points, the mean will also be raised by 7 points. The new mean is 74. 50% of the scores will be less than the mean of a normal distribution.

**NEW QUESTION: 5**

A payment of a cash dividend represents a cash outflow from \_\_\_\_\_.

- A. operating activities under the direct method only.
- B. investing activities.
- C. financing activities.

**Answer: (SHOW ANSWER)**

The payment of a dividend is a cash outflow from financing activities because the payment of a dividend provides owners with a return on their investment.

**NEW QUESTION: 6**

To estimate the average cost of a food-shopping event, Delcore, Inc. randomly sampled 100 shoppers and found a sample mean of \$72. Assuming a population standard deviation of \$5, a 99% confidence interval for average cost for a food-shopping event is \_\_\_\_\_.

- A. \$70.71 m \$73.29
- B. \$71.18 m \$72.82
- C. \$59.12 m \$84.88

**Answer: A (LEAVE A REPLY)**

For a 99% confidence interval we find  $z(0.005)$ , the cut-off for the top 0.5% of the normal distribution. Looking up 0.995 in the middle of the table the reading to the row/column values, we get

2.575. Working with the formula for E we get  $E = 1.29$ . So, the 99% confidence interval is  $\$72 - 1.29 \sigma$

$\$72 + 1.29 \sigma$  or \$70.71 m \$73.29.

**NEW QUESTION: 7**

The formula for joint probability is given by:

- A.  $P(AB) = P(A | B) / P(B)$
- B.  $P(AB) = P(A | B) * P(B)$
- C.  $P(AB) = P(A | B) / [P(B) * P(A)]$

**Answer: B (LEAVE A REPLY)**

A joint probability takes the form of  $P(AB) = P(A | B) * P(B)$ . Note that this is just a rearranged form of the formula for conditional probability.

**NEW QUESTION: 8**

A portfolio with 10 stocks has a weighted average return of 5.5% and a variance of 25. What is the

85% confidence interval for the weighted average?

- A. [-35.625%, 46.625%]
- B. [-30.5%, 41.5%]
- C. [-1.7%, 12.7%]

**Answer: (SHOW ANSWER)**

The variance is 25, which corresponds to a standard deviation of 5%. The 85% confidence interval is given by:  $\bar{X} \pm 1.44s = 5.5 \pm 1.44 \times 5$ .

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**NEW QUESTION: 9**

Which of the following is not included in investing activities?

- A. purchases and sales of property, plant, and equipment
- B. collection of the principal on a loan made to others
- C. repayment of the principal on a loan borrowed from others

**Answer: C (LEAVE A REPLY)**

Repayment of the principal on a loan borrowed from others is a financing activity.

**NEW QUESTION: 10**

Assume that Able Corporation has paid and expensed several speeding fines for its salespeople. Fines are never deductible for tax purposes. This will result in which of the following?

- A. No temporary difference.
- B. Taxable temporary difference and future income tax liability.
- C. Taxable temporary difference and future income tax asset.

**Answer: (SHOW ANSWER)**

When an expense is not deductible for tax purposes, it is a permanent difference and therefore, there is no temporary difference at all. This amount is eliminated when calculating the accounting income subject to tax.

**NEW QUESTION: 11**

Backwardation often occurs when a commodity's price is:

- A. high and volatile.
- B. low and volatile.
- C. low and stable.

**Answer: B (LEAVE A REPLY)**

Sellers of such a commodity attempt to hedge against the risk of lower spot prices which could drive them out of business.

**NEW QUESTION: 12**

Taxable temporary differences result in a deferred tax \_\_\_\_\_ when the tax base of an asset is \_\_\_\_\_ than its carrying amount.

- A. asset, less.
- B. liability, more.
- C. liability, less.

**Answer: (SHOW ANSWER)**

Or when the tax base of the liability exceeds its carrying amount.

**NEW QUESTION: 13**

For the following frequency distribution:

Class	Frequency
0 to 9	5
10 to 19	12
20 to 29	4
30 to 39	7
40 to 49	10

The median of the distribution is:

- A. 24.5
- B. 25.5
- C. 26.5

**Answer: A (LEAVE A REPLY)**

The median data can be calculated by:

median =  $L + ((n / 2 - CF) * I) / F$  where: n is the number of items in the sample, L represents the lower bound of the class containing the median, CF is the cumulative frequencies of all the classes prior to the one containing the median, F represents the frequency in the median class, and I is the interval size of the class containing the median.

So, in this case, n = 38, L = 20, CF = 17, F = 4, I = 9

Therefore, median =  $20 + ((38/2 - 17) * 9) / 4 = 20 + ((19 - 17) * 9) / 4 = 20 + (2 * 9) / 4 = 20 + 18 / 4 = 20 + 4.5 = 24.5$

**NEW QUESTION: 14**

Which of the following would not be an example that would require a nonparametric test?

- A. The variances between two sets of population need to be tested in order to determine if they are equal.
- B. The data being analyzed is a set of rankings as opposed to actual values for a set of occurrences.

C. The population, on which the tests are being conducted, is known for a fact not to be normally distributed.

**Answer: A (LEAVE A REPLY)**

Variance and arithmetic mean are the two most important parameters of a population. Hence, any test involving these two variables would be considered as a parametric test.

#### NEW QUESTION: 15

A bond is currently trading at 98.5 per 100 par, thus yielding 6.21%. It is estimated that the bond price will be 99.4 if rates decreased by 25 basis points and 97.8 if rates increased by 25 basis points. What is this bond's effective duration?

- A. 1.62
- B. 3.25
- C. 6.12

**Answer: (SHOW ANSWER)**

$$DE = (P_- - P_+) / (2P_0 * r) = (99.4 - 97.8) / (2 * 98.5 * 0.0025) = 3.25.$$

#### NEW QUESTION: 16

Which of the following statements is true for random variables?

- A. A random variable assumes numerical values associated with the random outcomes of an experiment; only one value can be assigned to each sample point.
- B. A random variable can only assume discrete values.
- C. A random variable assumes numerical values determined by a random number generator.

**Answer: A (LEAVE A REPLY)**

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#### NEW QUESTION: 17

An important distinction between the direct method and the indirect method of preparing a statement of cash flows is that:

- A. The direct method reconciles accrual-based net income with net cash flow from operations; the indirect method shows the specific cash inflows and outflows constituting the operating activities.
- B. Both methods result in the same dollar amount of net cash flows from operating activities.
- C. The format of the section computing net cash flow from operating activities is different under the two methods.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 18**

Two sets of observations, A and B, each contain 160 observations. The variance of data in A equals

198.4 and that of the data in B equals 231.9. The two sets have the same mean. Then, A has a \_\_\_\_\_ dispersion and a \_\_\_\_\_ coefficient of variation.

- A. lower; higher
- B. lower; lower
- C. higher; lower

**Answer: B (LEAVE A REPLY)**

The coefficient of variation equals the standard deviation divided by the mean. Since A and B have the same mean, B has a higher coefficient of variation.

**NEW QUESTION: 19**

Janice is going to choose 1 of 2 investments. Both investments cost \$80,000, but investment A pays

\$ 35,000 a year for four years and investment B pays \$30,000 a year for five years. If her required return is

13% and each payment is made at the end of every year, which should Janice choose?

- A. B because it has a higher NPV
- B. A because it pays back sooner
- C. A because its IRR exceeds 13%

**Answer: A (LEAVE A REPLY)**

NPV of Project A:  $35000/(1+0.13)^1 + 35000/(1+0.13)^2 + 35000/(1+0.13)^3 + 35000/(1+0.13)^4 - 80000 = \$24,106.$

NPV of Project B:  $30000/(1+0.13)^1 + 30000/(1+0.13)^2 + 30000/(1+0.13)^3 + 30000/(1+0.13)^4 + 30000/(1+0.13)^5 - 80000 = 25,516.$

**NEW QUESTION: 20**

Members of the CFA Institute should make reasonable efforts to detect and prevent violations of applicable laws, rules, regulations, and the Code and Standards by whom, according to the Standards of

Professional Conduct?

- A. Themselves.
- B. Anyone under their supervision
- C. Themselves and anyone under their supervision or authority

**Answer: (SHOW ANSWER)**

Members of the CFA Institute should make reasonable efforts to detect and prevent violations of applicable laws, rules, regulations, and the Code and Standards by Themselves and anyone under their supervision or authority.

**NEW QUESTION: 21**

Brian takes out \$200 from an ATM against his checking account at his bank. He then gives the money to Rick who deposits the whole \$200 in his checking account at bank (a different from that of

Brian's). In theory after the process finishes, the bank reserves will \_\_\_\_\_ and the M1 money supply will

\_\_\_\_\_.

**A.** remain the same, remain the same.

**B.** remain the same, decrease.

**C.** decrease, remain the same.

**Answer: A** ([LEAVE A REPLY](#))

There should be no change in either bank reserves or M1. The process is just a transfer of money from one bank to another, and these two banks have the same reserve requirement and should maintain identical reserves. M1 remains the same because the total amount of deposits in the economy is the same: the money supply is affected only by injections of money by the Fed.

**NEW QUESTION: 22**

The audit committee should ensure that if there are any conflicts of interest between the external auditor and the Company, they should be resolved in favor of the

**A.** shareowners.

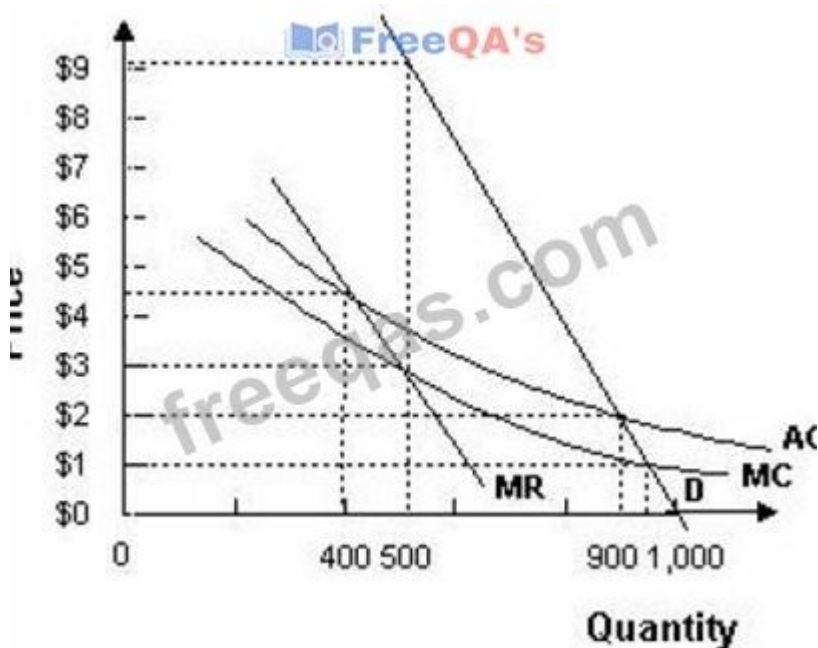
**B.** external auditor.

**C.** board.

**Answer: A** ([LEAVE A REPLY](#))

**NEW QUESTION: 23**

Refer to the graph below. If this firm were forced to set price equal to marginal cost, it would likely:



- A. charge a price of \$1.
- B. charge a price of \$9.00.
- C. eventually stop producing.

**Answer: C (LEAVE A REPLY)**

It would stop producing because it cannot cover its average costs.

#### NEW QUESTION: 24

A survey of 144 retail stores revealed that a particular brand and model of a VCR retails for \$375 with a standard deviation of \$20. If 90% and 95% confidence intervals are developed to estimate the true cost of the VCR, what similarities would they have?

- A. Point estimates
- B. Standard errors
- C. Both point estimates and standard errors

**Answer: C (LEAVE A REPLY)**

The point estimates and the standard errors will be the same. The z-values will differ according to the area under the curve.

#### NEW QUESTION: 25

When finding a confidence interval for the population mean, when is t-score used as the critical value

(assume the population is normally distributed)?

- A. The sample size is less than 30 and you do not know the population standard deviation.
- B. The sample size is less than 30 or you do not know the population standard deviation.
- C. The sample size is 30 or more or you know the population standard deviation.

**Answer: A (LEAVE A REPLY)**

#### NEW QUESTION: 26

Real gross domestic product is best defined as:

- A. all goods and services produced in an economy stated in the prices of a given year.
- B. the market value of all final goods and services produced in an economy stated in the prices of a given year.
- C. the market value of goods and services produced in an economy stated in current-year prices.

**Answer: B (LEAVE A REPLY)**

That's the definition of real GDP.

#### **NEW QUESTION: 27**

Which type of indices tends to have the contrarian effect?

- A. fundamentally weighted indices.
- B. equally weighted indices.
- C. market-capitalization weighted indices.

**Answer: (SHOW ANSWER)**

Portfolio weights will shift away from securities that have increased in relative value and toward securities that have fallen in relative value whenever the portfolio is rebalanced.

#### **NEW QUESTION: 28**

Which interest rate theory is most widely accepted as explaining the term structure of interest rates?

- A. Liquidity preference
- B. Expectations hypothesis
- C. Market segmentation

**Answer: B (LEAVE A REPLY)**

Expectations hypothesis: the hypothesis which explains the term structure of interest rates, stating that a long-term interest rate is the average of expected short-term interest rates over the applicable time period. If, for example, long-term rates are higher than short-term rates, then according to the expectations hypothesis, investors must expect that short-term rates will be increasing in coming periods.

#### **NEW QUESTION: 29**

Which of the following statements is incorrect?

- A. A probability distribution always specifies the probabilities of the possible outcomes for a random variable.
- B. Only lower case letters can be used to denote random variables.
- C. The outcomes of a continuous variable are infinite.

**Answer: B (LEAVE A REPLY)**

We normally use capital letters to denote random variables.

#### **NEW QUESTION: 30**

Which statement is false regarding technical analysis?

- A. Some applications of technical analysis are subjective.
- B. Technical analysis of any financial instrument does require detailed knowledge of that instrument.
- C. A key shortcoming of technical analysis is that it can be late in identifying changes in trends or patterns.

**Answer: B (LEAVE A REPLY)**

A is true - the interpretation of findings is often subjective. B is false - A technician just needs the chart that represents the action in a freely traded market. C is also true.

### NEW QUESTION: 31

Suppose a U.S. firm buys good from Thailand with a payment of Thai Baht 2,000,000 due in 90 days.

The current price of the baht is U.S. 0.02532. The U.S. firm wishes to hedge its currency risk by entering into a 90 day forward contract with a bank at a price of \$0.02545. In 90 days the spot rate for Thai baht is

\$ 0.02528.

- A. The firm can choose not to fulfill the contract because the spot rate at the time baht payment is due is less than the forward contract price.
- B. This means the firm will pay the bank \$50,560 to fulfill its part of the forward contract.
- C. This means the firm will pay the bank \$50,900 to fulfill its part of the forward contract.

**Answer: (SHOW ANSWER)**

The firm pays the bank the price agreed on in the forward contract:  $0.02545 \times 2,000,000$  or \$ 50,900. The firm experiences a loss on the contract because the forward price is greater than the spot rate at the time the baht payment must be made. If it had paid at the spot rate at the time the money was due, it would only have paid  $2,000,000 \times 0.02528 = \$50,560$ .

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### NEW QUESTION: 32

The sponsors of a well-known charity came up with a unique idea to attract wealthy patrons to the \$ 500 a plate dinner. After the dinner, it was announced that each patron attending could buy a set of 20 tickets for the gaming tables. The chance of winning a prize for each of the 20 plays is 50-50. If you bought a set of 20 tickets, what is the chance that you will win 15 or more prizes?

A. 0.006

B. 0.250

C. 0.021

**Answer: C (LEAVE A REPLY)**

This is a binomial probability. The probability of getting  $r$  successes out of  $n$  trials where the probability of success each trial is  $p$  and probability of failure each trial is  $q$  (where  $q = 1-p$ ) is given by:

$r$  (n-r)

$n!(p)^r(q)^{n-r}/r!(n-r)!$ . Here  $n = 20$ ,  $p = 0.5$  and  $q = 0.5$  and  $r = 15, 16, 17, 18, 19, 20$ . Therefore we have

$$P(15) = \frac{20!(0.5)^{15}(0.5)^5}{15!5!} = 0.0148$$

16 4

$$P(16) = \frac{20!(0.5)^{16}(0.5)^4}{16!4!} = 0.0046 \quad P(17) = 0.0011 \quad P(18) = 0.0002 \quad P(19) = 0.00002 \quad P(20) = 0.000001$$

The sum adds up to 0.0207.

### NEW QUESTION: 33

CFA Institute recommends maintaining records for at least \_\_\_\_ years.

A. five

B. seven

C. ten

**Answer: (SHOW ANSWER)**

CFA Institute recommends maintaining records for at least seven years.

### NEW QUESTION: 34

Which of the following assumptions imply an informationally-efficient market?

I). Many profit-maximizing participants, each acting independently of the others, analyze and value securities.

II). The timing of one news announcement is generally dependent on other news announcements.

III). Security prices adjust rapidly to reflect new information.

IV). A risk-free asset exists, and investors can borrow and lend unlimited amounts at the risk-free rate.

A. I, II, III, and IV.

B. II and IV only.

C. I and III only.

**Answer: C (LEAVE A REPLY)**

### NEW QUESTION: 35

Which financial statement would be most useful to an analyst who wants to evaluate a company's liquidity position and financial flexibility?

A. Statement of Cash Flows

B. Income Statement

### C. Balance Sheet

**Answer: C (LEAVE A REPLY)**

Liquidity relates to how easily a firm can convert assets into cash in relation to those short-term liabilities that need to be paid. Financial flexibility relates to a firm's ability to handle unforeseen downturns in its business environment or take advantage of investment opportunities. As such, it makes the most sense that the balance sheet would be the primary financial statement used to evaluate a company's liquidity and financial flexibility. It may not however provide a clear picture of liquidity unless it is used to evaluate a company's liquidity and financial flexibility. It may not, however, provide a clear picture of liquidity unless it is used in combination with the cash flow statement.

### NEW QUESTION: 36

Which of the following is NOT a price discrimination scheme?

- A. Paperback and hardback books sell at prices that are much more different than the difference in their production costs.
- B. Strawberries cost more in the winter than in the summer.
- C. You can save \$1 on a product if you clip a coupon out of the newspaper and take it to the store.

**Answer: B (LEAVE A REPLY)**

Strawberries are less expensive in the summer because supply is much greater then.

### NEW QUESTION: 37

Which model(s) assumes sticky wages (workers don't want to lower their wages to help the market reach a new equilibrium)?

- I). Keynesian school.
- II). Neo-Keynesian school.
- III). New Classical school.

- A. I only.
- B. III only.
- C. I and II.

**Answer: C (LEAVE A REPLY)**

They both assume slow-to-adjust wages. Neo-Keynesian school in addition assumes that other prices are slow to adjust as well (menu costs).

### NEW QUESTION: 38

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: C (LEAVE A REPLY)**

The normal rate of return is the return that could be earned on investment funds in other markets. In purely competitive markets, this rate of return is zero economic profit. A rate of return in excess of the normal rate of return implies that positive profits exist because the firm is earning more revenue than it spends on production costs.

**NEW QUESTION: 39**

Which of the following statement(s) is/are true?

I). Should an error that understates the ending merchandise inventory not be discovered, the Retained

Earnings account will be overstated at the end of the subsequent year.

II). The gross profit is 45% of net sales. The cost of goods sold then must be 55% of the net sales.

III). If the cost of goods sold increases by 1% of sales during the period, the gross profit and net income will decrease by 1% of sales because of this increase.

IV). The average inventory totals \$20,000 and the cost of goods sold totals \$200,000. The inventory turnover rate is 15.0.

A. I and IV.

B. II only.

C. I and III.

**Answer: B (LEAVE A REPLY)**

I). If the error, which will understate current-year net income, is not discovered, the overstatement of the subsequent year's income will effectively correct the Retained Earnings account.

II). Net Sales (100%) less the cost of goods sold equals gross profit.  $100\% - 55\% = 45\%$ .

III). Assume that cost of goods sold is 44% of net sales. Then the gross profit must be 56% of net sales.

When cost of goods sold increases to 45%, the gross profit is lowered to 55%.

IV).  $\text{Cost of goods sold} / \text{Average inventory} = \text{Inventory turnover}$ . The turnover rate is 10.0 to 1 ( $\$200,000 / \$20,000 = 10.0$ ).

**NEW QUESTION: 40**

Suppose that initially, the equations for demand and supply are  $Q_d = 48 - 4P$  and  $Q_s = 4P - 16$ , respectively. If the quantity supplied decreases by 4 at every price (so that the supply curve shifts to the left), the equilibrium price will change from:

A. \$8 to \$7.50.

B. \$8 to \$8.50.

C. \$8.50 to \$7.50.

**Answer: B (LEAVE A REPLY)**

To solve for equilibrium price, set  $Q_d$  equal to  $Q_s$ . The initial equilibrium price is \$8. The equation for the new supply curve is  $Q_s = 4P - 20$  and the new equilibrium price is 8.5.

**NEW QUESTION: 41**

Which of the following should be classified as financing cash flow?

- I). purchase and sale of equity securities of other entities.
  - II). issuance of equity securities and reacquisition of capital stock.
  - III). payment of dividend.
- A. all of them.  
B. I and II.  
C. II and III.

**Answer: (SHOW ANSWER)**

Purchase of debt and equity securities of other entities (sale of debt or equity securities of other entities), loans to other entities (collection of loans to other entities) are considered investing activities. However, issuance of debt (bonds and notes) and equity securities are financing cash inflows, and payment of dividend, redemption of debt, and reacquisition of capital stock are financing cash outflows.

**NEW QUESTION: 42**

The following table presents selected common-size income and balance sheet data for Curative Drugs.

Year	1	2	3	4	5	6	7
Current assets	24.5%	25.6%	25.2%	26.3%	26.7%	26.4%	26.9%
Total debt-equity	0.33	0.31	0.35	0.40	0.39	0.41	0.43
Operating margin	19.4%	19.5%	19.3%	19.1%	19.0%	18.7%	18.5%
COGS	63.5%	63.2%	63.5%	63.6%	63.7%	63.5%	63.6%
Return on total capital	8.15%	8.16%	8.09%	8.10%	8.05%	7.95%	7.88%
Return on equity	11.30%	11.35%	11.15%	10.90%	10.75%	10.40%	10.25%

Which of the following conclusions can be drawn from the data presented above?

- A. Curative is tightening its inventory and accounts receivables policies.
- B. Curative shareholders are earning more per dollar invested in the company with time.
- C. Curative's sales, general and administrative costs are rising over time.

**Answer: C (LEAVE A REPLY)**

Curative's COGS are steady as a percentage of sales. This implies its gross margin is also steady. A decline in operating margin indicates that its sales, general and administrative expenses are going up as a fraction of its sales.

**NEW QUESTION: 43**

ABC Company has estimated its REBP to be equal to \$75,000,000. Which of the following statements is true? (WACCs: the WACC before REBP; WACCe: the WACC after REBP)

- A. If total new capital raised is less than \$75,000,000, then  $MCC = WACCs$ .
- B. If total new capital raised is less than \$75,000,000, then  $MCC = WACCe$ .
- C. If total new capital raised is greater than \$75,000,000, then  $MCC = WACCs$ .

**Answer: (SHOW ANSWER)**

Any capital amount less than REBP is raised at a cost equal to WACCs. Up to the REBP, the cost of capital is constant at WACCs. Therefore,  $MCC = WACCs$ .

#### **NEW QUESTION: 44**

One of the discretionary accounts managed by Bill Farnsworth, CFA, is the Jones Corporation employees' profit-sharing plan. Diane Jones, the company president, recently asked Farnsworth to vote the shares in the firm's profit-sharing plan in favor of the company-nominated slate of directors and against the directors sponsored by a dissident stockholder group. Farnsworth does not want to lose this client because he directs all the client's trades to a brokerage firm that provides Farnsworth with useful information about tax-free investments. Although this information is not of value in managing the Jones

Corporation account, it does help in managing several other accounts. The brokerage firm providing this information also offers the lowest prices for trades. Farnsworth investigates the proxy-fight issue, concludes that management's slate of directors is better for the long-run performance of the firm than those recommended by the dissident group, and votes accordingly. Farnsworth:

- A.** violated the Standards in directing trades to the brokerage firm, but not in voting the shares as requested by Jones.
- B.** did not violate the Standards in voting the shares in the manner requested by Jones nor in directing trades to the brokerage firm.
- C.** violated the Standards in voting the shares in the manner requested by Jones, but not in directing trades to the brokerage firm.

**Answer: B** ([LEAVE A REPLY](#))

#### **NEW QUESTION: 45**

The coupon formula for an inverse floater is

- A.** coupon rate =  $K - L \times (\text{reference rate})$  where K and L are values specified in the prospectus for the issue.
- B.** coupon rate - K =  $L \times (\text{reference rate})$  where K and L are values specified in the prospectus for the issue.
- C.** coupon rate =  $K + L \times (\text{reference rate})$  where K and L are values specified in the prospectus for the issue.

**Answer: A** ([LEAVE A REPLY](#))

The coupon formula for an inverse floater is:

coupon rate =  $K - L \times (\text{reference rate})$  where K and L are values specified in the prospectus for the issue.

#### **NEW QUESTION: 46**

Margin loans may increase the purchase of stocks. Declining margin debt may force the selling of stocks. This is using margin debt as a:

- A.** sentiment indicator.

- B. momentum indicator.
- C. flow-of-funds indicator.

**Answer: (SHOW ANSWER)**

It can also be used as a sentiment indicator.

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#### **NEW QUESTION: 47**

Which of the following is/are true about advantages of international trade?

- I). It leads to lower prices for imported goods.
  - II). It leads to lower prices for exported goods.
  - III). It leads to an expansion of consumption possibilities.
  - IV). It leads to an expansion of the production possibility frontier.
- A. I, II and III.
  - B. I, II and IV.
  - C. I, III and IV.

**Answer: (SHOW ANSWER)**

International trade takes advantage of the comparative advantages that the trading partners have in producing goods and services. This expands the production possibilities and hence, the consumption possibilities. Further, in the presence of exports, the supply of an exported good in the domestic market is lower than it would be otherwise. This causes a higher price for the exported good to prevail in the domestic market. hence, (II) is incorrect. The reverse occurs for imported goods, so that (I) holds.

#### **NEW QUESTION: 48**

The international equivalent of the U.S. Securities and Exchange Commission (SEC) is:

- A. IASB
- B. IASC
- C. IOSCO

**Answer: (SHOW ANSWER)**

It works to achieve improved market regulation internationally.

#### **NEW QUESTION: 49**

An 8%, 20-year bond is selling for \$90.80. What is the total amount of coupon and reinvestment income necessary to earn the yield to maturity?

- A. \$160.00
- B. \$428.12
- C. \$528.12

**Answer: B (LEAVE A REPLY)**

Find YTM = 9% from  $N = 40$ ,  $PV = -90.80$ ,  $PMT = 4$ ,  $FV = 100$ ,  $I/Y = 4.5$  (x2),  $4[(1.045)^{40} - 1]/.045 = \$428.12$

#### NEW QUESTION: 50

The time it takes an auto mechanic to replace a carburetor is known to follow a normal distribution with a mean of 53 minutes and a standard deviation of 7.5 minutes. This means that

- A. the peak of the bell-curve is at 53
- B. the peak of the bell curve is at 7.5
- C. it always takes at least 53 minutes to replace a carburetor

**Answer: A (LEAVE A REPLY)**

The peak of the bell-curve occurs at the mean of 53.

#### NEW QUESTION: 51

Which is (are) NOT defined as barriers to entry?

- I). Patents
  - II). Monopolies
  - III). Government licensing
  - IV). Economies of scale
  - V. Market forces
  - VI). Defects
- A. I, II and V
  - B. II, V and VI
  - C. III, IV and V

**Answer: B (LEAVE A REPLY)**

Barriers to entry limit the ability of new firms to compete in the industry. Of the above, only patents, government licensing and economies of scale fit this description.

#### NEW QUESTION: 52

Andrea Palmer has saved 25,000 in her bank account. She is thinking of moving it to a money market account that pays a fixed 3.75% stated annual rate, compounded monthly. If Andrea continues to save 600 per month for the next three years, every month-end from her salary, how much money will she have after three years?

- A. 50,912
- B. 50,796
- C. 46,917

**Answer: B (LEAVE A REPLY)**

Andrea has 25,000 today and will save 600 monthly at year-end. The latter is an annuity. The future value of both can be computed in one step on a financial calculator. Interest =  $3.75/12 = 0.3125\%$ , since compounding is monthly. In the BGN mode: PV = 25,000; N = 36; I/Y = 0.3125; PMT = 600; CPT FV = 50,796.

**NEW QUESTION: 53**

Crowding-out effect implies that an expansionary fiscal policy will have following result(s):

- I). higher real interest rate.
- II). higher nominal interest rate.
- III). higher dollar value in foreign exchange market.
- IV). increased net exports.

- A. II and IV.
- B. II and III.
- C. I and III.

**Answer: C (LEAVE A REPLY)**

Real interest rate will be higher since the government borrowing will increase the demand for loanable funds. Nominal interest rate will be determined by both real rate AND inflation rate, and it's uncertain that it will be higher. The higher real interest rate will attract financial capital from abroad and lead to appreciation of the dollar, which in turn will reduce the net export.

**NEW QUESTION: 54**

A coefficient of skewness of +2.48 indicates:

- I). the mean is larger than the median
- II). a large positive skewness
- III). the tail of the distribution is to the right

- A. I and III.
- B. II and III.
- C. I, II and III.

**Answer: C (LEAVE A REPLY)**

In a positively skewed distribution, the mean is greater than the median or mode. The coefficient of skewness (Sk) generally lies between -3 and +3, therefore a Sk of +2.48 indicates significant positive skewness.

**NEW QUESTION: 55**

Good Z is priced on Market #1 at \$150. The same good is priced on Market #2 at \$125. Which of the following describe(s) the process that will eliminate the arbitrage profit?

- I). Investors will purchase Good Z on Market #1 and drive the price up
- II). Investors will purchase Good Z on Market #2 and drive the price up

III). Investors will sell Good Z on Market #1 and drive the price down

- A. I and II.
- B. I and III.
- C. II and III.

**Answer: C (LEAVE A REPLY)**

Investors will take advantage of the irrational pricing by buying Good Z at the lower price in Market #2 and selling it at the higher price on Market #1. The purchases in Market #2 will put upward pressure on the price. The sales in Market #1 will put downward pressure on the price. The process will continue until the prices on Markets #1 and #2 are equal.

#### **NEW QUESTION: 56**

What is the median of 26, 30, 24, 32, 32, 31, 27 and 29?

- A. 29.5
- B. 29
- C. 30

**Answer: A (LEAVE A REPLY)**

Ordering the numbers we have 24,26,27,29,30,31,32,32. Since there is an even number of observations (8), the median is the average of the two middle observations  $(29 + 30)/2 = 29.5$ .

#### **NEW QUESTION: 57**

For a monopoly earning economic losses, the demand curve

- A. is below the average total cost curve at every level of output.
- B. is tangent to the average total cost curve at every level of output.
- C. none of the above are correct because a monopoly firm cannot earn economic losses.

**Answer: A (LEAVE A REPLY)**

When the demand curve is below the average total cost curve at every output level there is no quantity which can be sold at a sufficiently high price to cover all of the costs of producing. The firm would earn economic losses. Given the negative sloped demand curve and u-shaped cost curve, it is impossible for the demand curve to be above or tangent to the average total cost curve at every level of output.

#### **NEW QUESTION: 58**

According to CFA Institute's Standards of Professional Conduct, the following is procedure for compliance for one of the Standards of Professional Conduct:

Members should report any beneficial interest that they may have in any corporate directorships, trustee positions, or any other relationships that could pose a conflict of interest with their responsibilities to their employers.

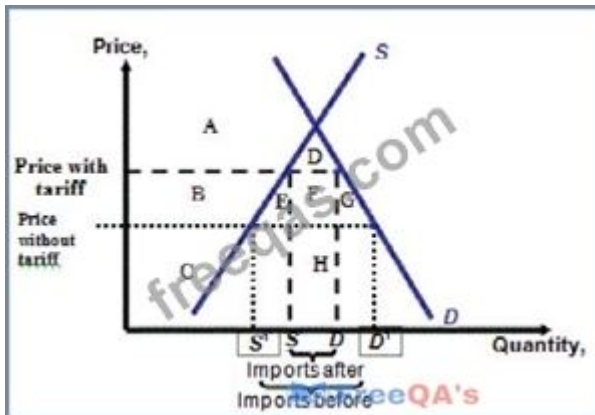
Which Standard of Professional Conduct do these compliance procedures relate to?

- A. Standard I (A) - Professionalism - Independence and Objectivity.
- B. Standard IV (B) - Duties to Employers - Additional Compensation Arrangements.
- C. Standard VI (A) - Conflicts of Interest - Disclosure of conflicts.

Answer: C ([LEAVE A REPLY](#))

### NEW QUESTION: 59

Assume a small country imposes tariff.



After the tariff, the producer surplus will:

- A. decrease by B
- B. increase by B
- C. decrease by B + C

Answer: B ([LEAVE A REPLY](#))

Producer surplus will increase if the price rises.

### NEW QUESTION: 60

You can enter a derivative contract that will pay \$100 at the end of a year if the price of corn exceeds

\$3 per bushel, or \$50 if it is equal to \$3 per bushel or lower. The probability that corn will exceed \$3 by the end of one year is 50%. The current price of the contract is \$60, and interest is 5% per year. What is the optimal strategy?

- A. Buy \$3 per bushel worth of corn futures.
- B. Enter into the derivative contract for a cost of \$60.
- C. Invest \$60 at 5% until the end of the year.

Answer: ([SHOW ANSWER](#))

Enter into the derivative contract for a cost of \$60, for the expected payoff is  $0.50 * \$100 + 0.50 * \$50 = \$75$ . That is a 25% return on your investment in one year, greater than the 5% that could be made by investing the \$60 at interest. This is an example of the investment consequences of inconsistent probabilities. The present value of the contract should be  $\$75/1.05 = \$71.43$ . Thus, an arbitrage opportunity is present. On an expected value basis, you can buy an asset worth \$71.43 for only \$60.

### NEW QUESTION: 61

A project has a conventional cash flow pattern and positive NPV. If the cash flows for the project, initial outlay, and future after-tax cash flows all double, then

- A. The IRR would increase and NPV would increase.

- B. The IRR would stay the same and NPV would increase.
- C. The IRR would stay the same and NPV would stay the same.

**Answer: B (LEAVE A REPLY)**

The IRR would stay the same because the return on each dollar invested remains the same. The NPV would increase since the difference between total present value of the future cash flows and the initial outlay also doubles.

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#### **NEW QUESTION: 62**

If the one month exchange rate  $\$/E(\text{EUR})$  is 0.7928-30, this implies:

- A. the bank is willing to commit itself today to sell dollars in one month for  $E(\text{EUR})0.7928$  or to buy them for  $E(\text{EUR}) 0.7930$ .
- B. the bank is willing to commit itself today to buy dollars in one month for  $E(\text{EUR})0.7928$  or to sell them for  $E(\text{EUR}) 0.7930$ .
- C. the bank is willing to commit itself today to buy dollars for  $E(\text{EUR})0.7928$  or to sell them for  $E(\text{EUR})0.7930$ .

**Answer: B (LEAVE A REPLY)**

In a forward, or futures, contract, a commitment is irrevocably made on the transaction date, but delivery takes place later, here a month later. The bid-ask quotation here implies that the bank is willing to commit itself today to buy dollars in one month for  $E(\text{EUR})0.7928$  or to sell them for  $E(\text{EUR})0.7930$ .

#### **NEW QUESTION: 63**

The book value of property, plant, and equipment is the \_\_\_\_\_.

- A. difference between market value and any accumulated depreciation to date.
- B. difference between original cost and any accumulated depreciation to date.
- C. amount of deferred taxes due to the timing difference in depreciation expense for tax purposes and financial reporting.

**Answer: B (LEAVE A REPLY)**

The difference between an item of property, plant, and equipment's original cost and any accumulated depreciation to date is the book value of the item.

**NEW QUESTION: 64**

A long-term asset is different from prepaid expense primarily because:

- A. A long-term asset has physical substance.
- B. A long-term asset is long-term in nature.
- C. A long-term asset is used in operations and not for resale.

**Answer: B (LEAVE A REPLY)**

This is the most correct one. The primary difference between long-term assets and current assets in general is their useful lives.

**NEW QUESTION: 65**

Of the following statements:

- I). In a normal distribution, the coefficient of skewness is 1.0.
  - II). In normal distribution, approximately 95% of the observations lie within one standard deviation of its mean.
- A. Neither I nor II is true
  - B. Only II is true
  - C. Only I is true

**Answer: A (LEAVE A REPLY)**

**NEW QUESTION: 66**

If companies have identical inventorable costs, but use different inventory flow assumptions when the price of goods has not been constant, then the:

- A. net income of the companies will be identical
- B. ending inventory of the companies will be identical
- C. cost of goods available for sale of the companies will be identical

**Answer: C (LEAVE A REPLY)**

The cost of goods available for sale will be the same if beginning inventory and purchases are the same, but if different methods are used, cost of goods sold and net income will be different, as different methods give a different value for ending inventory.

**NEW QUESTION: 67**

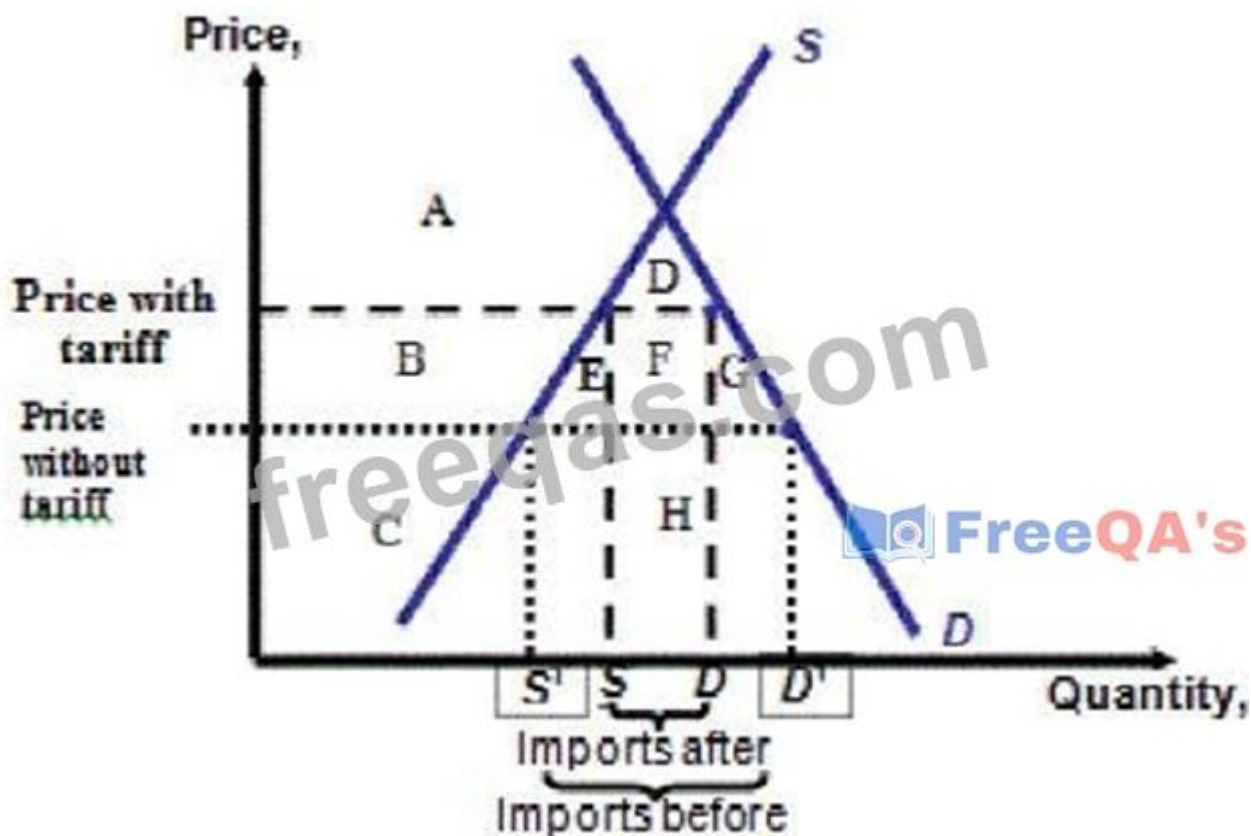
The last day that the buyer of the share will receive the dividend is:

- A. the ex-dividend date.
- B. the last business day before the ex-dividend date.
- C. the last business day before the holder-of record date.

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 68**

Assume a small country imposes tariff.



The government revenue will be:

- A. F
- B. F + H
- C. D + F + H

**Answer: A (LEAVE A REPLY)**

The tariff is the difference between the two prices. The imported quantity is from S to D

#### NEW QUESTION: 69

Brokerage firm A provides the lowest cost for trade execution. Brokerage firm B has higher costs but also provides research that your firm can use to make investment decisions beneficial to clients.

- A. Your firm is obliged to trade with firm A
- B. Your firm can use either firm because they are providing a different combination of services.
- C. Your firm can use firm B only if the research would be purchased anyway and the combined cost is lower at B

**Answer: (SHOW ANSWER)**

#### NEW QUESTION: 70

You have a portfolio of 4 stocks, A, B, C and D.

Exactly 25% of your capital is invested in each stock.

$E(R_A) = 15\%$ ,  $E(R_B) = 12\%$ ,  $E(R_C) = 10\%$  and  $E(R_D) = 8\%$ . The expected return on the portfolio is:

- A. 12%.

B. 11.25%.

C. 10.75%.

**Answer: B (LEAVE A REPLY)**

$0.25 \times 15\% + 0.25 \times 12\% + 0.25 \times 10\% + 0.25 \times 8\% = 11.25\%$ .

### NEW QUESTION: 71

Of the following statements:

I). In a stratified random sample, each item in the sample has the same probability of being sampled.

II). In a simple random sample, each item in the sample has the same probability of being sampled.

A. Only II is true

B. Only I is true

C. I and II are true

**Answer: A (LEAVE A REPLY)**

### NEW QUESTION: 72

In the long run the price a monopolistic competitor sets is equal to:

A. marginal revenue.

B. average total cost.

C. marginal cost.

**Answer: B (LEAVE A REPLY)**

After long-run adjustments have been made, price and quantity fall with firm entry until  $P = ATC$  and firms earn zero economic profit.

### NEW QUESTION: 73

Assume three months have elapsed since the last coupon payment date. The cum-coupon price for

\$ 250,000 par value of a 5-year, semi-annual pay, 6% coupon bonds is \$225,900. What is the full price?

A. \$228,490

B. \$229,650

C. \$232,657

**Answer: B (LEAVE A REPLY)**

The clean price is \$225,900. The accrued interest is  $(3/6) (1/2) (6\%) \$250,000 = \$3,750$ . The full price =  $\$225,900 + \$3,750 = \$229,650$ .

### NEW QUESTION: 74

An analyst examines many different pieces of nonpublic, nonmaterial information regarding a firm and comes to a significant conclusion. According to the \_\_\_\_\_ theory, the analyst can act on this conclusion.

- A. Mosaic
- B. Traditional
- C. Misappropriation

**Answer: A ([LEAVE A REPLY](#))**

**NEW QUESTION: 75**

The reserve requirement is 10%. You take \$5,000 and deposit it in your checking account. What will be the maximum total change in bank deposits resulting from this?

- A. \$5,000 increase
- B. \$45,000 increase
- C. \$50,000 increase

**Answer: ([SHOW ANSWER](#))**

The money multiplier is  $(1/(\text{reserve requirement})) = 10$  if  $c = 0$ , so the maximum deposit expansion is  $10 \times 5000 = 50,000$ .

**NEW QUESTION: 76**

Which institutional investor has the longest investment time horizon?

- A. A defined benefit pension plan that is closed to new members.
- B. A property insurance company.
- C. Stanford University Endowment Fund.

**Answer: C ([LEAVE A REPLY](#))**

University endowments are established with the intent of having perpetual lives.

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**NEW QUESTION: 77**

The quantity of real money that people plan to hold depends on these factors:

- I). The price level.
- II). The nominal interest rate.
- III). Real GDP.
- IV). Financial innovation.

- A. II, III and IV.
- B. I and II.
- C. All of them.

**Answer: A (LEAVE A REPLY)**

All of the 4 factors affect the quantity of nominal money people hold. However, the price level does not affect the real money people hold.

**NEW QUESTION: 78**

Deerfield Industries has just issued 5% annual coupon bonds with a face value of 75,000,000 at a market yield of 4.75%. The bonds have a 10 year maturity. How much interest expense and CFO will

Deerfield report for the first year?

- A. Interest expense of 3,750,000 and CFO of -3,750,000.
- B. Interest expense of 3,632,114 and CFO of -3,632,114.
- C. Interest expense of 3,632,114 and CFO of -3,750,000.

**Answer: (SHOW ANSWER)**

Market value of bonds at the time of issuance is given by discounting future cash flows at the market yield of 4.75%. Coupon payments are based on 5% of face value of 75,000,000.

Bond issue value: PMT = 3,750,000; N = 10; I/Y = 4.75; FV = 75,000,000; CPT PV = 76,465,565

Deerfield will show a bond liability of 76,465,565, and CFF equal to the face value, 75,000,000.

Year 1 interest =

$0.0475 \times 76,465,565 = 3,632,114$ . Deerfield will show an interest expense of 3,632,114 and a CFO of

-3,750,000, i.e., 5% of face value.

**NEW QUESTION: 79**

At the end of 2010, a firm changes its depreciation method from the double-declining balance method to straight line. The firm only has one asset, a building that cost \$4,000,000 and has a salvage value of \$200,000 after a life of 20 years. The tax rate is 20%. The asset was purchased in January of

2008. What will be the cumulative effect of the change on the 2010 depreciation resulting from the years

2008 and 2009?

- A. \$210,000 lower
- B. \$380,000 lower
- C. \$190,000 lower

**Answer: B (LEAVE A REPLY)**

Depreciation under the straight-line method would be \$190,000 each year  $[(\$4,000,000 - \$200,000)/20]$ . Depreciation under the double-declining balance method would be \$400,000 in the first year. The double-declining rate is 10%  $[(100\%/20) \times 2]$ . Applying the rate of 10% to the beginning book value of \$4,000,000 = \$400,000 for the first year. The second year will be the beginning book value of

\$3,600,000  $(\$4,000,000 - \$400,000) \times .1 = \$360,000$ . The difference between \$400,000 and \$190,000, of

\$ 210,000, will be the change in the depreciation expense for the year 2008. The second year for the straight line is \$190,000. The difference between \$360,000 and \$190,000, of \$170,000, will be the change in the depreciation expense for the year 2009. The cumulative effect of the change for the year 2010 will be  $\$210,000 + \$170,000 = \$380,000$  lower.

**NEW QUESTION: 80**

Which of the following statements regarding investment companies is FALSE?

- A. Investment companies invest exclusively in long-term instruments such as stocks, bonds and real estate.
- B. Investors that purchase shares from an investment company become owners of the investment company.
- C. Investment companies provide a means of acquiring international securities.

**Answer: (SHOW ANSWER)**

Investment companies are also heavily involved with money market securities. Money market mutual funds are widely popular and consist of investments in short-term securities.

**NEW QUESTION: 81**

Imagine a fictional derivative that can, when combined with certain other financial instruments, pay

\$ 100,000 each time a Democrat is elected President of the U.S. This fictional derivative has:

- A. decreased market completeness because the payoff described can only be achieved in combination with other financial instruments
- B. left market completeness unchanged because the payoff described can only be achieved in combination with other financial instruments
- C. increased market completeness even though the payoff described can only be achieved in combination with other financial instruments

**Answer: C (LEAVE A REPLY)**

Since the addition of the imaginary derivative has made a payoff pattern possible where it was previously impossible, the derivative has made the market more complete.

**NEW QUESTION: 82**

An auto manufacturer is conducting a market study for a new model. It is afraid that the new car may cannibalize sales from its existing lineup. The sales director thinks that based on past experience, as much as 20% or more of existing buyers would move to the new model. The market research department is setting up the null hypothesis to test the effect of the new model on existing model sales. If  $u$  represents the erosion of sales of the current model, which of the following is the most appropriate null hypothesis?

- A.  $u \geq 0\%$
- B.  $u = 20\%$
- C.  $u \geq 20\%$

**Answer: C (LEAVE A REPLY)**

It is already known that the introduction of a new model would cannibalize sales of existing lines as mentioned by the sales director. He states that the erosion could be 20% or more. Thus, this is the most appropriate null hypothesis. Note that this would make it a one-tailed test.

**NEW QUESTION: 83**

What does an unqualified audit opinion mean?

- A. The financial statements present fairly in all material respects the financial position, the results of operations, and the cash flows for the period.
- B. The financial statements are 100 percent correct.
- C. The financial statements contain a serious departure from generally accepted accounting principles that affects numerous accounts and financial statement relationships.

**Answer: A (LEAVE A REPLY)**

An unqualified audit opinion states with any qualification that the financial statements present fairly in all material respects the financial position, results of operations, and cash flows for the company.

**NEW QUESTION: 84**

The dividend discount model values a share of stock as

- A. the sum of all future cash flows adjusted for time value of money.
- B. the sum of all expected future cash flows, where these cash flows are adjusted for risk and time value of money.
- C. the sum of all expected future dividend payments.

**Answer: (SHOW ANSWER)**

The value of any asset is the present value of its expected future cash flows discounted at the appropriate rate of return.

**NEW QUESTION: 85**

Lionel Lir is an analyst at a large brokerage house. He has just found out that company JHT is planning to buy company TYP, and is planning to pay a large premium to the current price. He immediately purchases a large block of TYP stock for himself as well as for other select clients. Which standards of professional conduct has Lionel violated?

- A. Lionel has not violated the standards since the deal may not actually go through.
- B. Lionel has violated the standards since he should have informed all the firm's clients of the information he had in his possession.
- C. Lionel has violated the standard of fair dealing.

**Answer: (SHOW ANSWER)**

Any recommendation made by the member must be disseminated in such a manner that all clients have a fair opportunity to act on the information.

**NEW QUESTION: 86**

The change in the quantity of money that results from a given change in the monetary base is determined by the

- A. currency drain.
- B. money multiplier.
- C. reserve ratio.

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 87**

At levels of output where the firm's short-run average cost curve is increasing,

- A. the marginal cost curve is above the short-run average cost curve.
- B. the marginal cost curve is below the short-run average cost curve.
- C. the marginal cost curve may be above or below the short-run average cost curve.

**Answer: A (LEAVE A REPLY)**

At levels of output greater than the minimum of the short-run average cost curve, the marginal cost curve is above the short-run average cost curve.

**NEW QUESTION: 88**

Which relationship has a negative effect on a firm's market value of equity?

- A. Economic profit Normal profit.
- B. Economic profit Accounting profit.
- C. Normal profit > Accounting profit.

**Answer: C (LEAVE A REPLY)**

In this case the economic profit 0.

**NEW QUESTION: 89**

Which of the following questions are considered a part of short-term finance?

- I). How much credit should be extended to customers?
  - II). What is a reasonable level of cash for the firm to maintain?
  - III). How much of the firm's current income should be paid out as dividends?
  - IV). Should the firm issue commercial paper or obtain a bank loan?
- A. I, II and III.
  - B. I, II, and IV.
  - C. II, III and IV.

**Answer: B (LEAVE A REPLY)**

II: The level of cash is also a short-term financing consideration.

**NEW QUESTION: 90**

Your research department has just made a sound presentation arguing that the equity markets are due for a severe correction in the short term. Which of the following strategies would be most suitable to safeguard the portfolio that you manage?

- A. Long futures contracts on an equity index.

- B. Buy put options on an equity index.
- C. Buy call options on an equity index.

**Answer: (SHOW ANSWER)**

If you expect stock prices to decline, then you'll want to enter into an agreement that will allow you to sell shares at a pre-determined price. This way, you are effectively locking in the future value of the shares. There are only two strategies that will enable you to carry out this transaction. First, buying a put will give you the "right" to deliver these shares at a pre-determined price. And second, selling stock index futures will "obligate" you to deliver these shares at a pre-determined price.

**NEW QUESTION: 91**

It is important for any firm to determine its appropriate target cash balance:

- A. because of the fluctuation in interest rates on marketable securities.
- B. because there is a trade-off between the benefit and cost of liquidity.
- C. since most firms follow flexible policies of working capital management.

**Answer: B (LEAVE A REPLY)**

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**NEW QUESTION: 92**

The more ambiguous the effect on price, the \_\_\_\_\_ the information becomes.

- I). less material.
- II). more material.
- III). less "public".
- IV). more "public".

- A. II and IV.
- B. I and III.
- C. I only.

**Answer: C (LEAVE A REPLY)**

If it is unclear whether the information will affect the price of a security and to what extent, information may not be considered material.

**NEW QUESTION: 93**

Natural monopoly exists when:

- A. one firm can supply the entire quantity demanded at lower cost than two or more firms.
- B. one firm can supply the entire quantity demanded at the same cost as two or more firms.
- C. the long-run average cost curve exhibits constant returns to scale.

**Answer:** ([SHOW ANSWER](#))

Average costs are continually falling for a natural monopolist. Thus, one firm can produce at a lower per unit cost than can two or more firms.

#### **NEW QUESTION: 94**

When should a rational financial manager pay a bill if 1) a discount is offered, 2) the discount has not yet expired, 3) the firm needs to borrow funds to take the discount, 4) the firm will have sufficient cash by the end of the net period, and 5) the best possible borrowing rate exceeds the cost of forgoing the discount?

- A. As soon as possible after the discount date so as to not upset the supplier.
- B. No sooner than six months so as to maximize the use of "free" trade credit financing.
- C. On the final due date.

**Answer:** C ([LEAVE A REPLY](#))

The supplier has made only the full net period available to the firm, thus the firm should choose the least costly method which is to pay on the final due date. Taking extra time will cause supplier and possible legal problems.

#### **NEW QUESTION: 95**

Mutual fund operating expenses:

- A. are typically less than 0.1% of the value of the fund
- B. generally do not exceed 1% of the value of the fund
- C. usually exceed 2% of the value of the fund

**Answer:** B ([LEAVE A REPLY](#))

Common operating expenses include management fees, record-keeping costs, and accounting and legal fees and range from 0.25% to as much as 1.00% of net assets annually. Typically, larger funds charge lower proportionate fees.

#### **NEW QUESTION: 96**

As part of a promotion for a new type of cracker, free trial samples are offered to shoppers in a local supermarket. The probability that a shopper will buy a packet of crackers after testing the free sample is

0.20. Different shoppers can be regarded as independent trials. Let  $X$  be the number among the next 100 shoppers who buy a packet of the crackers after tasting a free sample, then  $X$  has approximately a

- A.  $N(4, 20)$  distribution.
- B.  $N(20, 4)$  distribution.
- C.  $N(0.2, 16)$  distribution.

**Answer:** B ([LEAVE A REPLY](#))

The distribution is approximately normal with mean  $np = 20$  and standard deviation  $\frac{1}{2}$   
 $[np(1-p)] = 4$ .

**NEW QUESTION: 97**

An individual asset's relative systematic risk is calculated based on the:

- A. Security market line.
- B. Capital market line.
- C. Efficient frontier.

**Answer: A (LEAVE A REPLY)**

An individual asset's relative systematic risk is calculated based on the Security Market Line.

**NEW QUESTION: 98**

Which factor has the least impact on the RSI's sensitivity?

- A. The selection of the time period.
- B. The volatility of the security itself.
- C. The current price trend of the security.

**Answer: C (LEAVE A REPLY)**

The shorter the time period, the more sensitive the RSI becomes. The more volatile the security, the more sensitive the RSI becomes.

**NEW QUESTION: 99**

In accounting for a lease transaction classified as a capital lease, over the term of the lease:

- A. the asset should be depreciated by the lessor in a systematic and rational manner.
- B. the lease payments by the lessee constitute a payment for lease liability plus interest.
- C. the gross sum of the lease payments equals the dollar amount that would have been paid by the lessee to purchase the property on the date of the inception of the lease.

**Answer: B (LEAVE A REPLY)**

Lessees must make a payment that includes a payment on the debt outstanding as well as interest on the debt.

**NEW QUESTION: 100**

Which of the following is not a characteristic of an efficient market?

- A. prices adjust rapidly to new information, and all available information is reflected in market prices.
- B. market prices never over-adjust or under-adjust.
- C. there are many competing investors.

**Answer: (SHOW ANSWER)**

An efficient market does not require all assets be correctly priced at all times. It merely requires that equilibrium (the correct price) be re-established reasonably quickly after new information arrives.

**NEW QUESTION: 101**

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

The IRRs for the two projects are:

A. X: 34.55%; Y: 27.87%

B. X: 10.5%; Y: 12.9%

C. X: 46.45%; Y: 54.85%

**Answer: C (LEAVE A REPLY)**

By setting the NPV equal to zero and solving for the discount rate with the help of a financial calculator, IRRX = 46.45%, IRRY = 54.85%

**NEW QUESTION: 102**

Bond 1 is a 6%, 5-year bond, and Bond 2 is a 6%, 10-year bond. Both bonds yield 5%. What is the relative percentage of total future dollars that reinvestment income is expected to generate with Bond 1 and 2, respectively?

A. 2.70%; 9.42%

B. 3.37%; 15.03%

C. 12.03%; 27.72%

**Answer: (SHOW ANSWER)**

Bond 1:  $RI / (\text{Total future dollars}) = 3.61 / 133.61 = 0.027$  Bond 2:  $RI / (\text{Total future dollars}) = 16.63 / 176.63 = 0.0942$

**NEW QUESTION: 103**

Which one is the most likely reason for a current account deficit?

A. low private savings.

B. low private investment.

C. government surplus.

**Answer: (SHOW ANSWER)**

$CA = Sp + Sg - I$ .

**NEW QUESTION: 104**

A student's grade in a course is determined by her score on two exams. The probability that she passes the first exam is 0.85, the probability that she passes the second exam is 0.80, and the probability that she passes both exams is 0.78. What is the probability that she passes at least one of the exams?

A. 0.05

B. 0.83

C. 0.87

**Answer: C (LEAVE A REPLY)**

Let A denote the event she passes the first exam and B denote the event she passes the second exam, then  $P(A \text{ or } B) = P(A) + P(B) - P(A \text{ and } B) = 0.85 + 0.80 - 0.78 = 0.87$ .

**NEW QUESTION: 105**

A GDP-weighted multi-market index is essentially a \_\_\_\_\_ index.

- A. price weighted.
- B. market-capitalization weighted.
- C. fundamentally weighted.

**Answer: C (LEAVE A REPLY)**

Such an index weights each country in the overall index in proportion to its relative GDP.

**NEW QUESTION: 106**

A researcher is studying the number of trees that contain a certain type of locust in the Smoky Mountains each year. He has found an average of 25% of the trees contain the locust with a standard deviation of 4%. If 100 trees were randomly sampled, which of the following statement is incorrect?

A. The shape of the sampling distribution is approximately normal, and the mean of the sampling distribution is approximately 25%.

1/2

B. The standard deviation of the sample mean is approximately 4%.

C. The standard deviation of the sampling distribution is  $\sigma/n$

**Answer: B (LEAVE A REPLY)**

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**NEW QUESTION: 107**

Howard Mayfield, a portfolio manager with Churn Brothers Brokerage, is examining a new issue of

7 -year corporate notes. These notes have been issued by Microscam, and feature an 8.00% per year coupon rate. These bonds are trading at a yield of 7.34% per year. The yield on the on-the-run 5-year

Treasury note is 5.12% per year.

What are the relative and absolute yield spreads between these two securities? Further, what is the yield ratio? A Relative yield spread 30.2%; absolute yield spread 222 basis points; yield ratio 1.56

- A. Relative yield spread 30.2%; absolute yield spread 222 basis points; yield ratio 1.56.
- B. Relative yield spread 43.4%; absolute yield spread 66 basis points; yield ratio 1.43.
- C. Relative yield spread 43.4%; absolute yield spread 222 basis points; yield ratio 1.43.

**Answer: C (LEAVE A REPLY)**

The difference between the yield on an on-the-run Treasury security and a non-Treasury issue of similar maturity is frequently referred to as simply the "yield spread." Further, since non-Treasury sectors of the fixed income market nearly always offer a spread to similar Treasury issues, non-Treasury sectors are referred to as "spread sectors" and securities in these sectors are referred to as "spread products."

There are many measures of yield spread; the most common measures include the absolute yield spread, the relative yield spread, and the yield ratio. Each of these methods is detailed below:

{Absolute yield spread = [yield on security A - yield of on-the-run Treasury]} {Relative yield spread = [(yield on security A - yield of on-the-run Treasury) / yield of on-the-run Treasury]} {Yield ratio = [Yield on security A / yield of on-the-run Treasury]}

Remember that while the most useful measures of relative yield spread (for purposes of risk analysis) is to measure a spread product against a comparable on-the-run Treasury issue, measures of yield spread can be calculated for any two debt securities, regardless of maturity, coupon, yield, or issuer. In this example, all of the necessary information has been provided, and the calculation of each measure of yield spread is as follows:

{Relative yield spread = [(0.0734 - 0.0512) / 0.0512]} = 0.43359, or 43.4% {Absolute yield spread = [0.0734 - 0.0512]} = 0.0222, or 222 basis points {Yield ratio = [0.0734 / 0.0512]} = 1.43359, or 1.43

### NEW QUESTION: 108

What monthly payment is required over the next 48 months to pay off a \$10,000 debt today, if interest is charged at 14% per year, compounded monthly?

- A. \$270.30
- B. \$366.67
- C. \$116.02

**Answer: A (LEAVE A REPLY)**

On the BAII Plus, press 48 N, 14 divide 12 = I/Y, 10000 PV, 0 FV, CPT PMT. On the HP12C, press 48 n, 14 ENTER 12 divide i, 10000 PV, 0 FV, PMT. Make sure the BAII Plus has the P/Y value set

48

to 1. Or Annuity =  $10000 / \{[1 - 1/(1+0.14/12)] / (0.14/12) \times (1 + 0.14/12)\} = 270.30$

### NEW QUESTION: 109

A company is considering making material adaptations to its warehouse and equipment. These costs will be \$25,000,000 and will have a benefit period of 10 years. The income tax rate during this period will be 30%. The company is considering the effects of capitalizing the costs versus expensing the cost.

Which of the following effects will occur if the costs are expensed rather than capitalized?

- A. Expensing will cause income to be greater in the years after the first year by \$1,750,000 per year
- B. Expensing will cause the return on assets in later years to be lower
- C. Expensing will cause the return on equity to be lower in later years

**Answer: (SHOW ANSWER)**

In the years following the year the costs were incurred, there will be no expense if the costs were expensed in the first year. However, if costs were capitalized, there would be a \$2,500,000 depreciation cost, which, after the tax effects ( $.3 \times \$2,500,000$ ), would make income less by \$1,750,000.

#### **NEW QUESTION: 110**

How are unearned revenues classified on the balance sheet?

- A. Current assets.
- B. Current liabilities.
- C. Other revenues.

**Answer: B (LEAVE A REPLY)**

Since unearned revenues involve activities related to the business's normal operating cycle, they are classified as current liabilities. Unearned revenues represent an obligation to perform a service or to return money to a customer.

#### **NEW QUESTION: 111**

Henry Giuliani, CFA charterholder, publishes a monthly investment newsletter. In an article on the energy sector he writes 'The energy sector is headed for a downturn. You should believe this, I am a CFA charterholder, and that implies superior ability to predict the market'. Giuliani has most likely violated the

Standards for:

- A. Responsibilities of a CFA Institute Member.
- B. Communications with Clients and Prospective Clients.
- C. Diligence and Reasonable Basis.

**Answer: A (LEAVE A REPLY)**

Standard VII-B: Reference to CFA Institute, the CFA Designation and the CFA Program:

When referring to CFA Institute, CFA Institute membership, the CFA designation or candidacy in the CFA

Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA Program.

**NEW QUESTION: 112**

Which statement is false based on the real business cycle theory?

- A. A period of rapid productivity growth brings an expansion, and a decrease in productivity triggers a recession.
- B. Productivity shocks are as likely to be caused by changes in aggregate demand as by technological change.
- C. Real business cycle theory regards random fluctuations in productivity as the main source of economic fluctuations.

**Answer: B (LEAVE A REPLY)**

This is actually one of the main criticisms of RBC theory.

**NEW QUESTION: 113**

Diane Corporation had 400 units of inventory on hand at July 1, 2002, costing \$20 each.

Purchases and sales of goods during the month of July were as follows:

July 12, 2002 Sales 200 units @ \$40 July 15, 2002 Purchases 100 units @ \$26 July 25, 2002

Purchases

300 units @ \$28 July 30, 2002 Sales 200 units @ \$40

Assume Diane Corporation does not maintain perpetual inventory records. According to a physical count,

400 units were on hand on July 31, 2002.

The cost of ending inventory using the FIFO cost method is:

- A. \$11,000
- B. \$9,000
- C. \$8,000

**Answer: (SHOW ANSWER)**

The cost of inventory is the ending inventory value on the balance sheet on July 31, 2002.

Using FIFO, the costs allocated to ending inventory will be the most recent costs. Therefore, if 400 units are remaining, the ending inventory value will be 300 @\$28 + 100 @\$26.

**NEW QUESTION: 114**

Which statement(s) is/are FALSE?

- I). Under the LIFO method of inventory valuation, the ending merchandise inventory would be valued at the purchase price of the most recent purchases.
- II). During extended periods of rising prices, the FIFO method of inventory valuation will yield a higher cost of goods sold and a lower ending merchandise inventory, when compared to the LIFO method of inventory valuation.
- III). The accounting principle of consistency prohibits any changes in the method of inventory valuation.
- IV). JIT means just in time and is an inventory method where the raw materials for production are purchased in smaller quantities after orders have been taken for the manufactured products.

- A. I, II and III.
- B. I, II and IV.
- C. II, III and IV.

**Answer: A (LEAVE A REPLY)**

I). LIFO means 'last-in, first-out'--the cost of the last items purchased are charged to the most recent sales. The merchandise inventory at the end of the year is considered to be from the oldest purchases.

II). The FIFO method will result in a lower cost of goods sold and a higher ending merchandise inventory (valued at first-in costs).

III). While consistency should be maintained, legitimate changes are allowed. However, the nature, justification, and effect of the change on net income must be disclosed (full-disclosure principle).

IV). JIT inventory systems require reliable suppliers and efficient handling and shipping of materials.

#### **NEW QUESTION: 115**

In the U.S. the Congress passes a law requiring the government to pay certain debts of companies that have declared bankruptcy. Which of the following terms most accurately describes this program?

- A. expansionary fiscal policy.
- B. automatic stabilizer.
- C. monetary policy.

**Answer: B (LEAVE A REPLY)**

An automatic stabilizer is anything that would decrease the government budget surplus during slow economies and increase the surplus during strong economic periods. During slow economic periods, bankruptcies are likely to rise, and by paying a portion of the defunct firms' debts, the government is injecting demand into the economy. This should be distinguished from an expansionary fiscal policy, because the program is not designed to expand national income, but to stabilize a slowdown without the need for further government action.

#### **NEW QUESTION: 116**

A manufacturer of light bulbs claims that the distribution of the light bulb life span has a mean of 60 hours and a standard deviation of 4 hours. The competition decides to check this claim by purchasing 30 light bulbs and testing them to determine the life span of the light bulbs. If the manufacturer's claim is true, how will the sampling distribution of the 30 light bulbs compare to the reported population distribution?

- A. The sampling distribution will be approximately normal with a mean of 60 hours.
- B. The sampling distribution will have a standard deviation of 4 hours.
- C. The sampling distribution will be approximately the same as the population distribution, skewed if the population is skewed, normal if the population is normal.

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 117**

Suppose the Brazilian real is quoted at US\$:R = 0.9955-1.0076 and the Thai baht is quoted at US \$:B

= 25.2513-3986. What is the direct quote for the real in Bangkok (R:B=?)?

- A. 30.5541 - 6456
- B. 25.1376 - 2654
- C. 25.0608 - 5134

**Answer: C (LEAVE A REPLY)**

Bid cross rate for the real R:B =  $25.2513/1.0076 = 25.0608$ . Ask cross rate for the real R:B =  $25.3986/0.9955 = 25.5134$ . Therefore the direct quotes for the real in Bangkok are R:B = 25.0608 - 5134.

**NEW QUESTION: 118**

Which of the following bonds will have the smallest percentage decrease in price if all required returns increase by 1%?

- A. 20-year zero-coupon bond
- B. 20-year 10% coupon bond
- C. 1-year 10% coupon bond

**Answer: C (LEAVE A REPLY)**

A bond's time to maturity is positively related to the elasticity of the bond's price with respect to changes in its required return. A bond's coupon rate is inversely related to the elasticity of the bond's price with respect to changes in its required return.

**NEW QUESTION: 119**

What type of charts does NOT provide four prices per data point entry?

- A. Point and figure chart.
- B. Candlestick chart.
- C. Bar chart.

**Answer: (SHOW ANSWER)**

Both candlestick chart and bar chart provide four prices per data point entry.

**NEW QUESTION: 120**

The market demand for an item is

- A. the vertical summation of individual demand curves.
- B. the horizontal summation of individual demand curves.
- C. smaller than the sum of individual demands because of competition for the same units.

**Answer: (SHOW ANSWER)**

Market demand is the sum of individual demands. Graphically, it is the horizontal summation of individual demand curves because individual quantities demanded are summed at each possible price.

**NEW QUESTION: 121**

If a researcher were conducting a paired difference experiment for a sample size of 100, and a 90% confidence interval, which of the following test statistics would he/she use for a two-tailed test?

- A.  $z_{0.1} = 1.28$
- B.  $t_{0.05} = 1.66$
- C.  $z_{0.05} = 1.645$

**Answer: B** ([LEAVE A REPLY](#))

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**NEW QUESTION: 122**

If a firm's average per-unit costs fall as it produces a larger output, then

- A. marginal cost must be less than average total cost.
- B. marginal cost must also decline as output expands.
- C. average variable cost must also decline as output expands.

**Answer: A** ([LEAVE A REPLY](#))

Average total costs increase when marginal costs are greater than average total costs.

Assume the following costs: Fixed cost = 100. The marginal cost of the first unit of output equals \$10

(MC1), the marginal cost of the second unit of output equals \$12 (MC2), MC3 = 14. Total costs for three units of output equals FC + VC which here equals \$100 + (\$10 + \$12 + \$14) which equals \$136. Average total costs equals \$136/3 or \$45.333. If MC4 = \$16 which is smaller than average total cost the average total cost will decline. Thus, total cost becomes \$136 + \$16 = \$152 thus making average total cost equal \$ 152/4 or \$38. Thus, when marginal cost is smaller than average total cost, the average total cost will decline.

**NEW QUESTION: 123**

Comparing with FIFO, LIFO results in (during periods of rising prices)

- A. lower taxes and lower cash flows.
- B. lower taxes and higher cash flows.
- C. higher taxes and lower cash flows.

**Answer:** ([SHOW ANSWER](#))

**NEW QUESTION: 124**

Data that describe characteristics of entities (such as persons, places, companies) at a given moment in time is called:

- A. a time-series data.
- B. a database.
- C. cross-sectional data.

**Answer: C** ([LEAVE A REPLY](#))

Cross-sectional data are data that describe characteristics of entities (such as persons, places, and companies) at a given moment in time. A balance sheet is just one example of cross sectional data. A census is also an example of cross-sectional data.

**NEW QUESTION: 125**

Judy Albert and Bob Tye, who recently started their own investment advisory business, have enrolled to take the Level III CFA examination next year. Albert's business card reads, 'Judy Albert, CFA

Candidate.' Tye has not put anything about the CFA designation on his business card. However, the firm's promotional material describes the CFA requirements and indicates that Tye participates in the CFA program and has completed Levels I and II). According to CFA Institute's Standards of Professional Conduct:

- A. Albert has violated the Standards, but Tye has not.
- B. Tye has violated the Standards, but Albert has not.
- C. Both Albert and Tye have violated the Standards.

**Answer: A** ([LEAVE A REPLY](#))

**NEW QUESTION: 126**

There are 1,000 identical firms in a purely competitive industry. In the short run, the total revenues of each firm are less than total costs. What will happen in the long run?

- A. Additional firms will enter the market, but the price will remain the same because the existing firms will not allow it to decrease.
- B. Firms will exit the market and the product price will rise.
- C. Additional firms will enter the market and price will be driven down to where each firm will be making just enough to stay in business (cover its variable costs).

**Answer: B** ([LEAVE A REPLY](#))

In the long run, under economic losses, firms will exit the industry. The contraction in supply caused by this exit will serve to increase the price of the good. Zero economic profits will be restored.

**NEW QUESTION: 127**

Regarding additional compensation arrangements, when is it appropriate to accept gifts, benefits, compensation, or consideration that competes with a member's employer?

- A. When written consent is obtained from all parties involved.
- B. When it is in the best interest of the member to do so.
- C. When the supervisor is ok.

**Answer: A (LEAVE A REPLY)**

When written consent is obtained from all parties involved, it is appropriate to accept gifts, benefits, compensation, or consideration.

**NEW QUESTION: 128**

An individual has two different portfolios that he has been investing in. One portfolio was created for his son and has 5 stocks. The other portfolio he created for himself and has 7 stocks. He has decided that he will keep, sell, or donate the stocks in his portfolio; he will either keep or sell the stocks in his son's portfolio. How many possible outcomes does this individual face for all the stocks in both portfolios?

- A. 4,096
- B. 69,984
- C. 531,441

**Answer: (SHOW ANSWER)**

5 7

The number of possible outcomes is:  $2^5 \cdot 2^7 = 69,984$ .

**NEW QUESTION: 129**

A brokerage firm, which has \$10 million in S&P500 stocks, enters into an equity swap with a pension fund which currently has \$10 million in a short term savings account earning LIBOR. If these two entities were to arrange a proper equity swap, in which payments are to be made annually, what would be the net payment for a period that saw the S&P500 net 12% and LIBOR set at 8%?

- A. Brokerage firm makes a net payment of \$400,000.
- B. Pension plan makes a net payment of \$400,000.
- C. Pension plan makes a net payment of \$200,000.

**Answer: A (LEAVE A REPLY)**

A proper swap would involve the brokerage firm making payments equal to S&P 500 returns in exchange for LIBOR.

Brokerage pays 12% of 10 million = \$1,200,000. Pension Pays 8% of 10 million = 800,000. Net payable

(broker's perspective): \$400,000

**NEW QUESTION: 130**

If a frequency distribution has open-ended intervals at the extremes, which measure of central tendency is the most difficult to estimate?

- A. Mean
- B. Median
- C. Mode

**Answer: (SHOW ANSWER)**

This is so since in a frequency distribution we do not necessarily know what the extreme values are especially in an open ended class. Therefore, the mean, which is very sensitive to extreme values, will be difficult to determine.

**NEW QUESTION: 131**

Suppose that four different portfolios have produced the following returns over the past year:

10%,

30%, 5% and 15%.

- I). The mean return is 15%.
- II). The range is 25%.
- III). The mean absolute deviation is 7.5%.

IV). The variance is 87.5% .

V. The standard deviation is 9.354%.

Which statement(s) is/are FALSE?

- A. II and IV only.
- B. III and V only.
- C. None of the above.

**Answer: C (LEAVE A REPLY)**

All the statements were true and can be computed as follows:

Mean return =  $(10 + 30 + 5 + 15) / 4 = 15\%$ . Range is  $30 - 5 = 25\%$ .

Mean absolute deviation (MAD) =  $[ |10 - 15| + |30 - 15| + |5 - 15| + |15 - 15| ] / 4 = 7.5\%$ .

2 2 2 2 2

Variance  $s = [(10 - 15)^2 + (30 - 15)^2 + (5 - 15)^2 + (15 - 15)^2] / 4 = 87.5\%$  .

0.5

Standard deviation is  $(87.5\%) = 9.354\%$ .

**NEW QUESTION: 132**

Select the correct statement(s):

- I). Under the cash-basis method, warranty costs are charged to expenses as they are paid.
- II). The current ratio is intended to indicate the long run liquidity position of the firm.

A. I only.

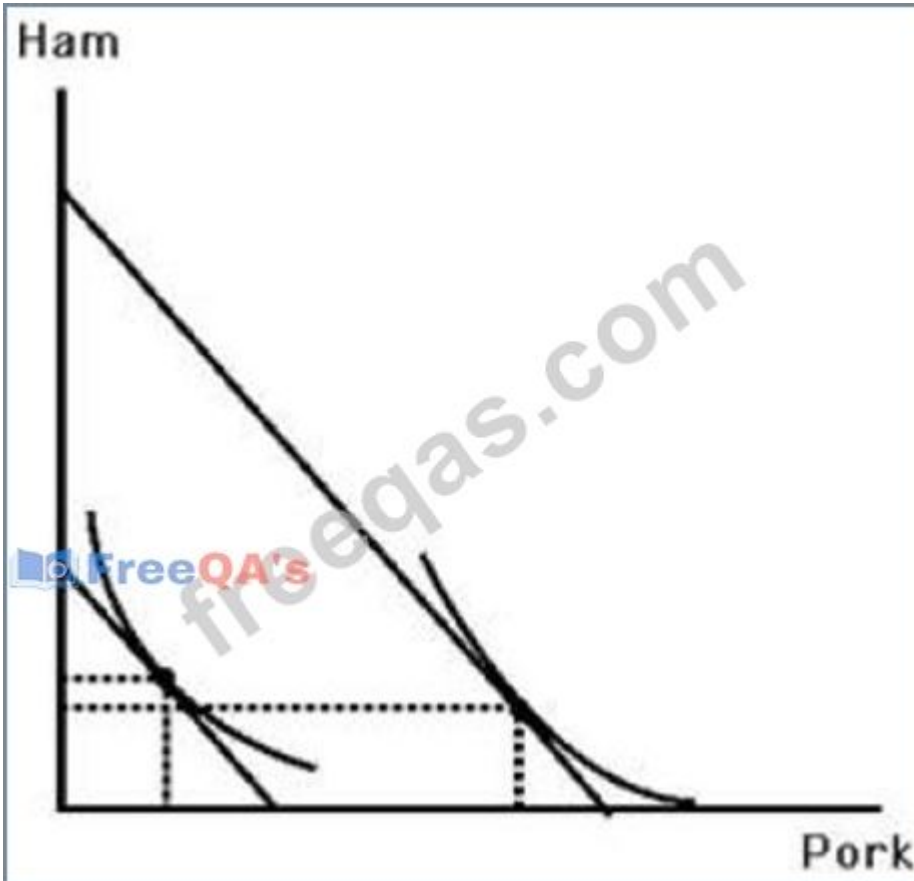
B. II only.

C. Neither is correct.

Answer: A ([LEAVE A REPLY](#))

**NEW QUESTION: 133**

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: B ([LEAVE A REPLY](#))

As income grows the consumption of Ham actually drops.

**NEW QUESTION: 134**

If the quantity of Snapple's drinks demanded falls from 4.0 million to 3.0 million as the price of Nantucket Nectar's drinks fall from \$2.70 to \$2.50, Snapple's drinks and Nantucket Nectar's drinks are:

A. substitutes.

B. compliments.

C. luxuries.

Answer: ([SHOW ANSWER](#))

Since the cross price elasticity of demand for Snapple's drinks and Nantucket Nectar's drinks is positive, they are substitutes.

**NEW QUESTION: 135**

The revaluation model is:

- I). An alternative to the cost model.
- II). Not permitted under IFRS.
- III). Not permitted under U.S. GAAP.

- A. I and II.
- B. I and III.
- C. III only.

**Answer: B (LEAVE A REPLY)**

IFRS permits the use of either the revaluation model or the cost model.

**NEW QUESTION: 136**

A retail client of yours is interested in knowing how low an annual return a major stock index might have, as a once in a twenty year event. The index in question has had an annual return of 11% with a standard deviation of 22%. You believe these returns have been normally distributed. What is the low return that could be expected once in twenty years?

- A. -11.0%.
- B. -25.2%.
- C. -32.1%.

**Answer: (SHOW ANSWER)**

Once in twenty years is  $1/20 = 5\%$ . So the client seeks the 5th percentile return. This could be obtained by computing a 95% confidence interval. However, since our information will be based at the mean, we should seek the 90% confidence interval, where the other 10% is split between the lower and upper bounds of the distribution. That way, we can obtain the lower 5% figure. The lower bound of the 90% confidence interval is  $11\% - 22\% * 1.645 = -25.2\%$ .

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**NEW QUESTION: 137**

The profits and losses from an equity portfolio insured using puts would have the same profit and loss characteristics as:

- A. being long a call option.
- B. writing covered puts.
- C. writing covered calls.

**Answer: A (LEAVE A REPLY)**

Being long a call has limited downside risk, as does portfolio insurance.

#### **NEW QUESTION: 138**

Reclassification of capitalized interest as an expense will have the following balance sheet effect:

- A. Reduction in shareholders' equity by the product of the change in capitalized interest and  $(1 - \text{Tax rate})$ .
- B. Decrease in deferred tax liability by the change in capitalized interest.
- C. Reduction in capitalized asset by the product of  $(1 - \text{Tax rate})$  and capitalized interest adjustment.

**Answer: A (LEAVE A REPLY)**

By treating capitalized interest as an expense, net income will be reduced by the amount of capitalized interest with a tax saving of the capitalized interest multiplied by the tax rate. The net is given by,  $\text{Reduction in shareholders' equity} = (1 - \text{Tax rate}) \times \text{Capitalized interest}$

#### **NEW QUESTION: 139**

If a nation is running a surplus in its current account,

- A. it is running a deficit in its capital/financial account.
- B. it is running a surplus in its capital/financial account.
- C. its net unilateral transfers or net income earned abroad must be negative.

**Answer: A (LEAVE A REPLY)**

A surplus in the capital/financial account must be balanced by a deficit in the capital account. That is how the balance of payments "always balances." Negative unilateral transfers or net income earned abroad would contribute to a current account deficit.

#### **NEW QUESTION: 140**

A client will move his investment account unless the portfolio manager earns at least a 10 percent rate of return on the account. The rate of return for the portfolio the portfolio manager has chosen has a normal probability distribution with an expected return of 19 percent and a standard deviation of 4.5 percent. What is the probability that the portfolio manager will keep this account?

- A. 0.950
- B. 1.000
- C. 0.975

**Answer: (SHOW ANSWER)**

As a rule of thumb, two standard deviations produce a 95% confidence level. Since this question presents a one-tailed test, the probability of falling below the expected value by two standard

deviations is 2.5%. Confidence interval =  $(19\% - 10\%)/4.5\% = 2$  standard deviations The frequency of outcomes two standard deviations less than the expected return is 2.28%. Hence, Probability of keeping the account =  $1.0000 - 0.0228 = 0.9772$ , closest to 0.975.

**NEW QUESTION: 141**

A firm should accept a project if \_\_\_\_\_, according to the NPV rule.

- A. the NPV is negative but the IRR is positive
- B. the estimated NPV is positive
- C. the estimated NPV exceeds the project's cost, indicating that the project has more than recaptured its initial cost in terms of net income

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 142**

The minimum price that producers must receive to induce them to produce another unit of a good or service is equal to the good's

- A. marginal cost.
- B. marginal benefit.
- C. producer surplus.

**Answer: (SHOW ANSWER)**

It is the cost of producing one more unit of a good or service.

**NEW QUESTION: 143**

MicroBulbs manufactures light bulbs that they claim have an average life of 1000 hours. To test MicroBulb's claim, a consumer group takes a random sample of 15 of the bulbs and obtains a sample mean of 950 hours with a sample standard deviation of 50 hours. For a hypothesis test at the 10% level of significance the critical value will be \_\_\_\_\_.

- A. -1.761
- B. -1.645
- C. -1.345

**Answer: C (LEAVE A REPLY)**

Because the sample standard deviation is used (population standard deviation is unknown) a t-distribution is used. We find  $t(0.1, 15 - 1)$ . Looking under column 0.10 and down to row 14 we get 1.345.

The rejection region is to left, so the critical value is -1.345.

$$H_0: \mu \geq 1000$$

$$H_a: \mu < 1000$$

$$\alpha = 10\%$$

$$s = 50$$

$$n = 15$$

$$\bar{x} = 950$$

$$\text{Critical value} = -1.345$$

$$\text{Test value} = -3.87$$

Decision Reject  $H_0$

Conclusion The light bulbs last  
less than 1000 hours.

#### NEW QUESTION: 144

Which of the following steps in process to sell a stock short are FALSE?

- A. The short seller gets the proceeds of the short sell.
- B. The seller must inform their broker that the order is a short sale before completing the transaction.
- C. The seller must borrow the securities from a broker before selling them, and must return the securities at the request of the lender.

Answer: A ([LEAVE A REPLY](#))

Short sellers DO NOT get the proceeds of the short sell.

#### NEW QUESTION: 145

Treasury and agency bonds are traded in increments of

- A. 1/32 of a percent of par value.
- B. 1/32 of a dollar.
- C. 1/8 of a dollar.

Answer: A ([LEAVE A REPLY](#))

Treasury and agency bond prices are quoted as percentages of par value. The smallest increment of change in the quoted price is 1/32 of a percent. For example, the smallest possible change on a bond last traded at 98% of par value is a change to 98 1/32 % or 97 31/32% of par value.

#### NEW QUESTION: 146

Assume that a company announces an unexpectedly large cash dividend to its shareholders. In an efficient market without information leakage, one might expect:

- A. no abnormal price change before or after the announcement.
- B. cannot tell without additional information.
- C. an abnormal price increase after the announcement.

Answer: C ([LEAVE A REPLY](#))

**NEW QUESTION: 147**

Let's suppose the factor of production is labor. The laborer receives \$20/per hour for their job, and the minimum salary they'd be willing to work for is \$16/per hour. The laborer's economic rent is:

- A. \$0.
- B. \$4.
- C. \$20.

**Answer: B (LEAVE A REPLY)**

\$16 is the laborer's opportunity cost.  $\$20 - \$16 = \$4$ .

**NEW QUESTION: 148**

Which of the following is the best example of frictional unemployment?

- A. You voluntarily quit your job, and you're looking for a new one.
- B. Typewriters have largely been replaced by computers, so the typewriter industry permanently lays off workers. These workers do not have the skills to get a job in the computer industry.
- C. You are employed part time at a grocery store, but you would prefer to work full time.

**Answer: (SHOW ANSWER)**

Frictional unemployment refers to temporary unemployment due to the time that it takes to search for an appropriate job.

**NEW QUESTION: 149**

What is the probability that a value of 30 or more will be observed from a normal distribution with a mean of 15 and standard deviation of 25?

- A. 50%
- B. 27.4%
- C. 60%

**Answer: B (LEAVE A REPLY)**

We need to calculate the standard normal variance,  $z = (30 - 15)/25 = 0.60$ . From the standard normal tables,  $\text{Prob}(z = 0.60) = 0.7257$ . Thus,  $\text{Prob}(z \geq 0.60) = 1 - 0.7257 = 0.2743$ , or 27.4%.

**NEW QUESTION: 150**

Which of the following is true of a monopolist's demand curve?

- A. It is identical with the industry demand curve for the product.
- B. It indicates that the monopolist will be able to sell more units at a higher price.
- C. It is perfectly inelastic.

**Answer: (SHOW ANSWER)**

A monopolist is the sole supplier to a market; therefore, the monopolist provides the industry supply. The demand curve that the monopolist faces then is the market demand curve.

**NEW QUESTION: 151**

You are an analyst and you have studied Firm Q's financial statements as well as the prospects for the economy. You have come up with your projection of return for Q as well as its index of systematic risk.

How might you use SML?

- A. You would compute the expected return from the SML and compare it to your projections to evaluate whether your stock is priced correctly
- B. You would disregard the SML expected return and go with your analytical projections since the SML is an equilibrium model and therefore not accurate in the short run
- C. You would disregard the SML expected return since it can't be measured with enough accuracy to be useful

**Answer: A (LEAVE A REPLY)**

The most useful result of the CAPM, and therefore the SML, is that it gives a fair required return measure commensurate with the degree of systematic risk. The other arguments presented apply equally to the fundamental analysis of the analyst.

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#### NEW QUESTION: 152

An analyst has gathered the following information about a company: Net profit margin of 15%, Asset turnover ratio of 0.267, Equity multiplier of 4.5, Dividend payout ratio of 30%. What is the company's growth rate?

- A. 18.6%
- B. 14.8%
- C. 12.6%

**Answer: (SHOW ANSWER)**

$g = (\text{retention rate})(\text{ROE})$   $\text{ROE} = (\text{net profit margin})(\text{asset turnover})(\text{equity multiplier}) = (.15)(0.267)(4.5) = 0.180$   $g = (1 - .3)(0.180) = (.7)(0.18) = 0.126$  or 12.6%

#### NEW QUESTION: 153

Assumptions of the Markowitz model include which of the following?

- A. Investors estimate portfolio risk using beta.
- B. Investors base decisions solely on historical return and systematic risk.
- C. Investors seek to maximize one-period expected utility.

**Answer: (SHOW ANSWER)**

The Markowitz model assumes that investors seek to maximize one-period expected utility.

**NEW QUESTION: 154**

To estimate the average length of their employee's telephone calls, FoneJack, Inc. randomly sampled 25 employee phone calls. If the sample mean was 1.3 minutes and the population can be assumed normal with a standard deviation of 0.3 minutes then a 90% confidence interval for the phone calls is \_\_\_\_\_.

- A. 1.2 m 1.4
- B. 1.24 m 1.36
- C. 1.18 m 1.42

**Answer: A (LEAVE A REPLY)**

For a 90% confidence interval we find  $z(0.05)$ , the cut-off for the top 5% of the normal distribution. Looking up 0.95 in the middle of the table the reading to the row/column values, we get 1.645. Working with the formula for E (see top right) we get  $E = 0.1$ . So, the 90% confidence interval is  $1.3 - 0.1$  m  $1.3 + 0.1$  or 1.2 m 1.4.

**NEW QUESTION: 155**

The clearinghouse is:

- A. closely associated with the futures exchange
- B. a department of the Federal Reserve
- C. an independent entity with no ties to the futures exchange

**Answer: A (LEAVE A REPLY)**

The clearinghouse is not an agency of the U.S. government. It is closely tied to the exchange and must cooperate closely with its associated exchange.

**NEW QUESTION: 156**

Which of the following indicates a company's ability to cover currently maturing obligations from recurring operations?

- A. Cash flow from operations to current liabilities
- B. Working capital
- C. Quick ratio

**Answer: A (LEAVE A REPLY)**

Free cash flow is the excess of operating cash flow over the basic needs.

**NEW QUESTION: 157**

You have invested in a stock with an expected return of 14% and a standard deviation of 7%. Your target rate of return is 7%. What is the probability that you will not meet your objective, assuming stock returns are normally distributed?

- A. 16%
- B. 32%
- C. 68%

**Answer: (SHOW ANSWER)**

There is a 68% chance that the stock returns will be within one standard deviation of the mean i.e. with 68% chance, the stock returns will be between 7% and 21%. Hence, the probability that stock returns will lie outside this range is  $100\% - 68\% = 32\%$ . Since the normal distribution is symmetrically distributed about the mean, the probability that the returns will be less than 7% equals  $32/2$

= 16% Instead of the above, you could also solve the problem using the z-score and the normal probability distribution table. You should, however, be aware of short-cuts like the above.

**NEW QUESTION: 158**

In a forward rate agreement, the seller agrees to:

- I). Pay a fixed interest rate determined now.
- II). Pay an interest rate to be determined at a future date.
- III). Receive a fixed interest rate determined now.
- IV). Received an interest rate to be determined at a future date.

A. II and III.

B. I and III.

C. II and IV.

**Answer: A (LEAVE A REPLY)**

The seller agrees to receive a fixed interest payment at a future date and pay an interest payment at a rate to be determined at expiration.

**NEW QUESTION: 159**

Select the correct statement(s) regarding sales of receivables:

- I). An outright sale or securitization of accounts receivable transfers what would be future operating cash flow into the current period.
- II). An outright sale or securitization of accounts receivable transfers current operating cash flow into future periods.
- III). In the future, if a company sought to reduce the amount of receivables sold or securitized, operating cash flow would rise.
- IV). Only an incremental amount of receivables sold would serve to increase operating cash flow.

A. II, III and IV.

B. I and IV.

C. II and III.

**Answer: B (LEAVE A REPLY)**

III: operating cash flow would decline instead.

**NEW QUESTION: 160**

If you are a bondholder for a firm, which of the following ratios would you be most interested in?

- I). Times interest earned.
- II). Total debt to total assets.

III). Return on equity.

IV). Quick ratio.

A. I and II.

B. II and III.

C. I, II and IV.

**Answer: A ([LEAVE A REPLY](#))**

#### **NEW QUESTION: 161**

In terms of CFA Institute's Standards of Professional Conduct when dealing with the purpose and scope of Standard V(A): Diligence and Reasonable Basis, which of the following statements are correct?

I). Members must establish a reasonable basis for all investment recommendations and actions.

II). This standard is meant to address only the member-client relationship.

III). Diligence must be exercised to avoid any material misrepresentation.

IV). Records and documentation must be maintained in order to support the investment recommendations and actions.

A. I and II only.

B. I and III.

C. I, III and IV only.

**Answer: ([SHOW ANSWER](#))**

This standard is also meant to address the role of the member within the investment decision making process as well as the support provided by the organization to the investment professional in carrying out his role.

#### **NEW QUESTION: 162**

Where would an investor find a company's management discussion of results of operations, capital resources, and outlook based on known trends?

A. SEC 8-K.

B. Management discussion & analysis in Annual Report.

C. Auditor's Opinion in Annual Report.

**Answer: ([SHOW ANSWER](#))**

#### **NEW QUESTION: 163**

Assuming that you believe a particular company has internally-generated goodwill, which of the following costs would you capitalize and then amortize over their estimated useful lives?

A. internally-generated goodwill should never be capitalized

B. both the costs of maintaining and restoring the goodwill

C. the cost of maintaining the goodwill

**Answer: A ([LEAVE A REPLY](#))**

The only way that goodwill can be capitalized is when it is purchased as part of a company. It is the excess of the price paid for the business over the market value of its net assets.

**NEW QUESTION: 164**

Country A is a favorite for the final soccer match. However, country B has a stronger chance of making it to the final if country A wins its semi-final match. The probability that both A and B make it to the final is estimated at 30%, and the probability of country A reaching the final is 60%. What is the conditional probability of country B making it to the final if country A wins its semi-final match?

- A. 50%
- B. 90%
- C. 18%

**Answer: A (LEAVE A REPLY)**

$P(A\&B) = P(A|B) \times P(B)$   
 $\text{Prob}(\text{Country B in final}|\text{Country A is in final}) = \text{Prob}(\text{Countries A and B in final})/\text{Prob}(\text{Country A in final}) = 0.30/0.60 = 0.50$ , or 50%.

**NEW QUESTION: 165**

A company can determine if its \_\_\_\_\_ objective has been met by evaluating its ability to earn a satisfactory net income.

- A. cash flow adequacy.
- B. liquidity.
- C. profitability.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 166**

Which of the following will unambiguously increase NAV of an open-end fund?

- A. Securities held increase in value by 1%
- B. Shares of the largest holding in the portfolio split 2-for-1
- C. Purchases of new shares exceed redemptions

**Answer: A (LEAVE A REPLY)**

Only an increase in asset value will unambiguously increase the net asset value of an open-end fund.

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**NEW QUESTION: 167**

In calculating earnings per share, the equivalent number of convertible preferred shares are added as an adjustment to the denominator (number of shares outstanding). If the preferred shares are cumulative, which amount should then be added as an adjustment to the numerator (net earnings)?

- A. Annual preferred dividend
- B. Annual preferred dividend times (one minus the income tax rate)
- C. Annual preferred dividend times the income tax rate

**Answer: A (LEAVE A REPLY)**

Taxes are ignored when calculating EPS.

#### **NEW QUESTION: 168**

Which of the following items has economic value, but not recorded on the balance sheet as an asset?

- A. Marketable securities carried as trading securities.
- B. Inventory carried at LIFO.
- C. Patents generated from internal research and development.

**Answer: C (LEAVE A REPLY)**

Internally generated patents should be expensed.

#### **NEW QUESTION: 169**

A population has a standard deviation of 15. In a sample of size 35, the estimated mean will have a standard error of

- A. 2.33
- B. 2.54
- C. 0.43

**Answer: B (LEAVE A REPLY)**

According to the central limit theorem, the sample mean has a standard deviation of  $\frac{1}{2} \frac{1}{2}$

$\frac{SD_{Pop}}{n}$ , where n is the sample size. In this case, standard error =  $15/35 = 2.54$ .

#### **NEW QUESTION: 170**

Which of the following statements is correct?

- A. A firm's cost of capital is not affected by the firm's investment policies.
- B. A firm's cost of capital is affected only by the firm's investment policies but it is independent of the firm's financing policies.
- C. A firm's cost of capital is affected by both the firm's financing and investment policies.

**Answer: C (LEAVE A REPLY)**

Both financing and investment policies affect the cost of capital. The investment policy determines the riskiness of the firm's assets, and therefore the required returns on debt and equity. The financing decisions affect the cost of debt by determining the relative amounts of outstanding debt and equity, as well as the risk of default.

**NEW QUESTION: 171**

A beginning amount of \$75,000 is invested in a money market account. At the beginning of each year (Starting from the second year) for the next 30 years, a withdrawal of \$8,854.69 is to be made to pay insurance premiums. What interest rate must the investment pay to support the premium payments?

- A. 11.34%
- B. 10.28%
- C. 13%

**Answer: A (LEAVE A REPLY)**

PV = -\$75,000; PMT = \$8,854.69; n = 30; CPT i = 11.34%

**NEW QUESTION: 172**

Which is true of positively skewed distributions?

- I). They have a limited, but frequent, upside.
- II). Their downside is less frequent but more unlimited.
- III). They are attractive to investors because their mean is larger than their median.

- A. III
- B. I and III
- C. II

**Answer: (SHOW ANSWER)**

I and II are false. The correct statements for them would be: 1) positively skewed distributions have a limited, but frequent, downside, and 2) they have a less frequent, but more unlimited, upside. III is true.

**NEW QUESTION: 173**

The cost of funds supplied by the owner of a proprietorship is:

- A. an explicit cost.
- B. an implicit cost.
- C. a sunk cost.

**Answer: B (LEAVE A REPLY)**

Implicit costs are those costs associated with the use of resources owned by the firm. For these, there are no explicit monetary payments and thus represent implicit costs. Examples of such costs include the use of a spare warehouse or the services provided by a proprietor for his own business.

**NEW QUESTION: 174**

A sinking fund requirement is when

- A. there is a commitment by the buyer to sell the fund to the purchaser at a specified price at a designated future date.

**B.** there is a commitment by the seller to buy the same fund back from the purchaser at a specified price at a designated future date.

**C.** an indenture requires the issuer to retire a specified portion of the issue each year.

**Answer: C (LEAVE A REPLY)**

A sinking fund requirement is when an indenture requires the issuer to retire a specified portion of the issue each year.

**NEW QUESTION: 175**

Robert Haley has "CFA Level 2" on his business cards. He has passed the Level 2 examination and is registered for the Level 3 examination to be given next June.

**A.** He has not violated the Standards.

**B.** He has violated the Standards because the designation "CFA" is not allowed on business cards.

**C.** He has violated the Standards because he is only aCFA candidate.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 176**

In periods of rising prices and stable or increasing inventory quantities, the impact of LIFO and FIFO on income before taxes is:

**A.** LIFO results in lower income.

**B.** FIFO results in lower income.

**C.** The choice of LIFO vs. FIFO does not affect income.

**Answer: (SHOW ANSWER)**

LIFO retains (earlier) lower cost inventory, thereby increasing COGS, and thereby decreasing income. FIFO results in the opposite.

**NEW QUESTION: 177**

If a person earned a score higher than 35 persons in his class of 50 students, what is his percentile score?

**A.** 50

**B.** 35

**C.** 70

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 178**

What part of the annual report contains forward looking information?

**A.** balance sheet and income statement

**B.** auditor's report

**C.** management discussion and analysis

**Answer: (SHOW ANSWER)**

The management discussion and analysis presents management's detailed analysis of the company's liquidity, capital resources, and operations. It includes forward looking information such as projections of capital expenditures and how the company plans to finance such expenditures.

**NEW QUESTION: 179**

On a common-size financial statement, which of the following is given a designation of 100%?

- A. Net income
- B. Net revenues
- C. Total liabilities

**Answer: B (LEAVE A REPLY)**

Net revenues is given the designation of 100% in a common-size income statement. Each component of the income statement, including net income, is shown as a percentage of net revenues.

**NEW QUESTION: 180**

Using extraordinary long depreciable lives for assets is an example of

- A. Stretching accounting principles to achieve a desired outcome.
- B. Using unrealistic or inappropriate estimates and assumptions to achieve a desired outcome.
- C. Using loopholes or bright-lines in accounting principles to structure transactions to achieve a desired outcome that differs from the economic structure of the transaction.

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 181**

Voting rights and proxies are discussed in CFA Institute's Standards of Professional Conduct per Standard III(A): Loyalty, Prudence, and Care, Which of the following facts regarding voting rights and proxies are NOT correct?

- A. Established law and regulation make it incumbent on investment managers to be thoroughly familiar with the issues that arise in proxies.
- B. Proxies have no value and can be voted on in any manner possible.
- C. By exercising their voting rights, the shareholders can actively enhance their portfolio value.

**Answer: (SHOW ANSWER)**

Proxies have economic value, and must be voted in the interest of the ultimate shareowner or plan beneficiary. Failure to exercise these rights may be to the detriment of the stockholder.

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**NEW QUESTION: 182**

Purchasing factory equipment on credit results in a

- A. debit to an asset account and a credit to a liability account.
- B. debit to a liability account and a credit to an asset account.
- C. debit to an expense account and a credit to a liability account.

**Answer: (SHOW ANSWER)**

This transaction results in an increase to an asset account and an increase to a liability account. Assets are increased with debits and liabilities are increased with credits.

**NEW QUESTION: 183**

Money is valuable since:

- A. People demand money but the supply is limited.
- B. It is a legal tender, and it can buy valuable things.
- C. It is backed up by gold or other commodities.

**Answer: A (LEAVE A REPLY)**

People demand money but the supply of money is limited relative to the demand, thus making money valuable. The value of a unit of money is inversely related to the level of prices.

**NEW QUESTION: 184**

Jake Stan, a CFA Charterholder, is writing an unfavorable research report on a company called PKO.

Larry Spelt, who is Jake's supervisor and who is NOT a CFA Charterholder, informs Jake that the firm is about to underwrite a large stock offering for PKO. Larry tells Jake to please upgrade his research report on PKO to reflect a purchase recommendation. Jake does this without disclosing the underwriting activity.

According to Standards of Professional Conduct, which Standard/s of Professional Conduct has/have been violated?

- I). Standard V A - Diligence and Reasonable Basis.
  - II). Standard VI A - Disclosure of Conflicts to Clients and Prospects.
- A. Both I and II.
  - B. I only.
  - C. II only.

**Answer: A (LEAVE A REPLY)**

Jake has changed his opinion on the stock and has also not informed the firm participation in the offering to clients. He has therefore also violated Standard V A

- Diligence and Reasonable Basis and Standard VI A
- Disclosure of Conflicts to Clients and Prospects.

**NEW QUESTION: 185**

If ending inventory is understated by \$2,000 and beginning inventory is overstated by \$3,000, the net income will be

- A. understated by \$5,000.
- B. overstated by \$1,000.
- C. overstated by \$5,000.

**Answer: A (LEAVE A REPLY)**

$COGS = BI + Purchase - EI$ . If BI is higher, the COGS is higher. If EI is lower, the COGS is higher. Based on the relationship, the COGS is overstated by  $\$2,000 + \$3,000$ . The net income is understated by \$5,000.

**NEW QUESTION: 186**

If you are a bondholder for a firm, which of the following ratios would you be most interested in?

- I). Times interest earned.
- II). Total debt to total assets.
- III). Return on equity.
- IV). Quick ratio.

- A. I and II.
- B. I, II and IV.
- C. II and III.

**Answer: (SHOW ANSWER)**

Bondholders are interested in the debt utilization ratios which in this case are the times interest earned and total debt to total assets.

**NEW QUESTION: 187**

Which of the following statements is not false?

- A. A random variable can take on specific values with certainty.
- B. The color of a car cannot be a random variable because it is not a random number.
- C. A random variable is a function, which associates an outcome with a real number.

**Answer: (SHOW ANSWER)**

A random variable can take on specific values but with uncertainty. The color of a car can be a random variable; each color considered is an outcome which can be associated to a probability (real number).

**NEW QUESTION: 188**

In terms of Standards of Professional Conduct when dealing with the procedures for compliance per

Standard I(D): Misconduct, which of the following ways is NOT an effective method for member compliance? Members should encourage their employees to:

- A. Conduct background checks on all employees to ensure that they are of the required quality.
- B. Have a few drinks when entertaining clients.

C. Take notes that personal misbehavior will not be tolerated.

**Answer: B (LEAVE A REPLY)**

The other choices ARE good compliance procedures. B is not a good compliance procedure as encouraging members to drink while entertaining clients encourages bad behavior.

**NEW QUESTION: 189**

A golden cross is:

A. When a short-term moving average crosses from above a longer-term moving average.

B. When a short-term moving average crosses from below a longer-term moving average.

C. When a price line crosses from above a moving average.

**Answer: B (LEAVE A REPLY)**

The movement is considered bullish.

**NEW QUESTION: 190**

What is the difference in the reinvestment income for the following two bonds? Bond 1 is a 6%, 5-year bond, and Bond 2 is a 6%, 10-year bond. Both bonds yield 5%.

A. \$3.61

B. \$13.02

C. \$33.61

**Answer: (SHOW ANSWER)**

Bond 1 R.I). = 3.61 (PV = 0, N = 10, I/Y = 2.5, PMT = 3, FV = ? = 33.61) - 30 Bond 2 R.I). = 16.63 (PV = 0, N = 20, I/Y = 2.5, PMT= 3, FV= ? =76.63) - 60 Difference = 16.63 - 3.61 = 13.02

**NEW QUESTION: 191**

What begins the indirect method of determining cash flow from operating activities?

A. sales

B. net income

C. operating profit

**Answer: B (LEAVE A REPLY)**

The indirect method of determining cash flow from operating activities begins with net income.

**NEW QUESTION: 192**

Each salesperson in a large department store chain is rated either below average, average, or above average with respect to sales ability. Each salesperson is also rated with respect to his or her potential for advancement either fair, good, or excellent.

These traits are the 500 salespeople were cross classified into the following table.

Sales Ability Potential for Advancement

	Fair	Good	Excellent
Below Average	16	12	22
Average	45	60	45
Above Average	93	72	135

What is the probability that a sales person selected at random will have below average sales ability and fair potential for advancement?

- A. 0.16
- B. 0.032
- C. 0.10

**Answer: B (LEAVE A REPLY)**

Prob. of selecting a below average person:  $(16 + 12 + 22)/500 = 1/10$ . Prob. of selecting fair potential amongst those in the below average group:  $16/50 = 8/25$ . Therefore  $1/10 * 8/25 = 4/125$ .

#### NEW QUESTION: 193

A trial generates only two results, "success" and "failure." The probability of success is higher than that of failure. The variance of the number of failures in 20 trials equals 2.35. The probability of success on a given trial equals \_\_\_\_\_.

- A. 0.136
- B. 0.864
- C. 0.452

**Answer: B (LEAVE A REPLY)**

For a binomial distribution with N trials, with the probability of success = p in each trial, the variance equals  $Np(1-p)$ . Hence,  $20 \times p \times (1 - p) = 2.35$ . Solving this gives quadratic equation gives p =

0.136 or p = 0.864.

#### NEW QUESTION: 194

When the price of a good changes, the substitution effect can be found by comparing the equilibrium quantities purchased

- A. on the original indifference curve when faced with the original prices and when faced with the new prices.
- B. on the new budget line and a hypothetical budget line that is a parallel shift back to the original indifference curve.
- C. on the old budget line and the new budget line.

**Answer: A (LEAVE A REPLY)**

#### NEW QUESTION: 195

Which of the following is incorrect?

- A. Sum of deviations from the mean always equals zero.
- B. For a sample, the Mean Absolute Deviation can never be equal to Standard Deviation.
- C. A t-distribution does not have a finite standard deviation.

**Answer: B (LEAVE A REPLY)**

Mean Absolute Deviation will be equal to Standard Deviation for a sample with equal number of two discrete values (all deviations of equal magnitude, half positive and half negative). In other situations Standard Deviation will exceed Mean Absolute Deviation.

#### **NEW QUESTION: 196**

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

- I). the expected divided payout ratio.
- II). the required rate of return.
- III). the expected growth rate of dividends.

- A. I and III.
- B. II only.
- C. None of these.

**Answer: C (LEAVE A REPLY)**

All of them impact the P/E ratio:  $P/E1 = (D1/E1)/(k - g)$

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#### **NEW QUESTION: 197**

A percentile score of 40 indicates that a person

- A. has earned a score equal to or better than 40% of the people in his class.
- B. knows 40% of the material covered by the examination;
- C. answered 40% of the questions correctly on the test;

**Answer: A (LEAVE A REPLY)**

#### **NEW QUESTION: 198**

If a continuous random variable appears to have equally likely outcomes over their range of possible values, it possesses a \_\_\_\_\_ distribution.

- A. uniform probability
- B. standard normal

C. Poisson

Answer: ([SHOW ANSWER](#))

**NEW QUESTION: 199**

The output decisions of a monopolistic competitor are based on the following principle:

- A. The principle of diminishing returns.
- B. The principle of opportunity cost.
- C. The marginal principle.

Answer: C ([LEAVE A REPLY](#))

**NEW QUESTION: 200**

The actual yield to maturity earned at the end of the bond's life may differ from the expected yield to maturity at purchase because of:

- A. reinvestment rate risk
- B. interest rate risk
- C. interest volatility

Answer: A ([LEAVE A REPLY](#))

**NEW QUESTION: 201**

Including costs in inventory that should be expensed will:

- A. overstate profitability and inventory.
- B. overstate profitability and understate inventory.
- C. understand profitability and overstate inventory.

Answer: A ([LEAVE A REPLY](#))

It will overstate profitability because of the inappropriate deferral of cost recognition.

**NEW QUESTION: 202**

A value-weighted index in which a \$50 stock increased by 15% and a \$45 stock decreased by 17% would

- A. increase by 1.8%.
- B. decrease.
- C. probably change, but that change is impossible to predict with the available information.

Answer: ([SHOW ANSWER](#))

A value-weighted index is derived from the market value of the constituent stocks. But it is impossible to derive the market value of the two stocks because the number of shares outstanding of either is not given.

**NEW QUESTION: 203**

For an asset with duration of 8.65, a 100 basis point increase in required return will:

- A. cause the price of the asset to increase by approximately 8.65%
- B. cause the price of the asset to decrease by approximately 4.33%

C cause the price of the asset to decrease by approximately 8.65%

C. cause the price of the asset to decrease by approximately 8.65%

**Answer: C (LEAVE A REPLY)**

There is an inverse relationship between the price of a bond and the bond's required return.

Duration is an estimate of the percentage change in the bond's price in response to a 100 basis point change in required return.

#### **NEW QUESTION: 204**

When grouping data with the purpose of constructing a frequency distribution, the suggested number of equal-sized classes for a data set with 210 observations is:

A. 6

B. 7

C. 8

**Answer: (SHOW ANSWER)**

When constructing a frequency distribution, you may approximate the number of classes of  $k$  the distribution ( $k$ ) with the smallest integer ( $k$ ) such that:  $2 \leq \text{Number of observations}$ . Therefore, we are  $k$  looking for the smallest integer  $k$ , such that,  $2 \leq 210$ . We obtain  $k=8$ .

#### **NEW QUESTION: 205**

Randy Smith called his broker, Pam Durbin, and asked her to borrow 100 shares of Zylex Corp. stock.

Randy then sold the stock at the current market price of \$45 while anticipating that Durbin would be able to buy the stock back for him at a lower price in the future. What type of order did Smith place?

A. Margin order.

B. Short sale.

C. Special order.

**Answer: B (LEAVE A REPLY)**

The objective of a short sale is to borrow securities, sell them at the current market price and then replace them with the same securities purchased at a lower price.

#### **NEW QUESTION: 206**

Which of the following statements is false?

A. The use of FIFO will lead to a meaningful inventory turnover

B. The use of FIFO will understate the debt-to-equity ratio and overstate income

C. Cash flows are improved under LIFO

**Answer: A (LEAVE A REPLY)**

Inventory turnover will be distorted under both LIFO and FIFO. Because FIFO uses earlier, lower costs for cost of goods sold, the inventory turnover will likely be too low. Under LIFO, the inventory value is too low, which can lead to an inventory turnover that is too high.

**NEW QUESTION: 207**

The format of the income statement that shows several intermediate profit measures is called the \_\_\_\_\_.

- A. single-step format
- B. multiple-step format.
- C. operating-profit format.

**Answer:**

B

Explanation: The multiple-step format provides several intermediate profit measures including gross profit, operating profit, and earnings before income tax before presenting the net income for the period.

**NEW QUESTION: 208**

Which statement(s) is/are correct?

- I). A value-maximizing firm will raise new capital in a manner consistent with their target capital structure.
- II). WACC is based on market values of debt and equity if the target capital structure is unknown.
- III). The WACC is the correct cost of capital to use in capital budgeting.

- A. I, II and III.
- B. I and III). C II and III
- C. II and III.

**Answer: A (LEAVE A REPLY)**

**NEW QUESTION: 209**

Assume the managers want to maximize bonuses, which are based on current net income.

Managers should prefer:

- A. Successful efforts rather than full costing of oil & gas drilling.
- B. Expensing research & development costs.
- C. Using straight-line rather than accelerated depreciation for financial statement purposes.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 210**

The mean of sample with a known population variance of 25 was estimated as 12.5. The sample size was 22 and the sample variance was 28. Which of the following represents the appropriate 95% confidence interval for the normally distributed population?

- A. 10.41, 14.59
- B. 10.29, 14.71
- C. 10.74, 14.26

**Answer: A (LEAVE A REPLY)**

Since the population variance is known and it is normally distributed, we will ignore the

1/2

sample variance. A 95% confidence 125+-196 (25/22) [1041 1459]

1/2

interval corresponds to a z-value of 1.96. Thus, CI is given by 12.5 +- 1.96 x (25/22) or [10.41, 14.59]

### NEW QUESTION: 211

Tomas Arnaud is considering an investment property that can be purchased for E(EUR)700,000. The property is expected to provide an after-tax cash flow of E(EUR)60,000 per year for the next four years. Arnaud expects to sell the property for E(EUR)800,000 at the end of the fourth year. If the required rate of return is 11%, what is the net present value of the investment? (Round your answer to the nearest E(EUR)10.00.)

- A. E(EUR)22,560
- B. E(EUR)340,000
- C. E(EUR)13,130

**Answer: C (LEAVE A REPLY)**

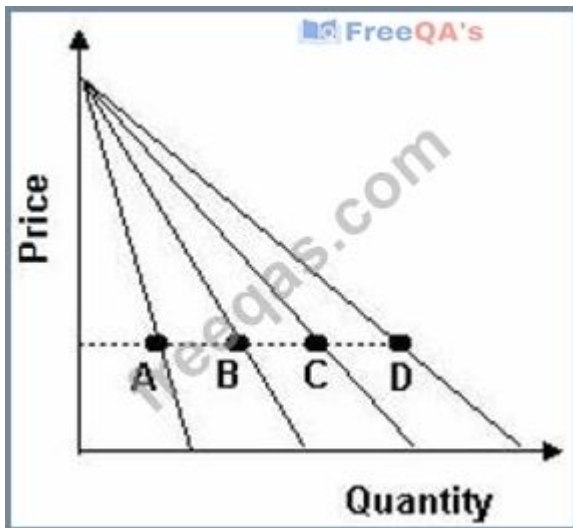
The net present value is the present value of all cash flows. It is calculated by subtracting the initial investment from the present value of future cash inflows.

$$NPV = 60,000/1.111 + 60,000/1.112 + 60,000/1.113 + 860,000/1.114 - 700,000 = 13,131$$

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### NEW QUESTION: 212

Refer to the graph below. Elasticity is smallest at which point?



- A. A
- B. C
- C. D

**Answer: A (LEAVE A REPLY)**

Quantity changes the least for point A with the same change in price and thus has the least elasticity.

**NEW QUESTION: 213**

Total profit is maximized at the output level at which:

- A. the vertical distance between the total revenue curve and the total cost curve is maximized.
- B. the total cost and total revenue curves intersect.
- C. the area between the total revenue and total cost curves is greatest.

**Answer: A (LEAVE A REPLY)**

Total profit at a particular output level is the difference between total revenue and total cost at that output level.

**NEW QUESTION: 214**

A certain function has 2 key properties.

- I).  $0 \leq p(x) \leq 1$ .
- II). The sum of the probabilities  $p(x)$  over all values of X equals 1. This function is known as the
  - A. probability function.
  - B. probability density function.
  - C. discrete uniform distribution

**Answer: A (LEAVE A REPLY)**

This function is known as the probability function.

**NEW QUESTION: 215**

A trade deficit means:

- I). The country does not save enough to fund its investment spending.
- II). The country must reduce its net financial claims on the rest of the world.

III). There must be a capital account deficit.

- A. I and II.
- B. II and III.
- C. I, II and III.

**Answer: A (LEAVE A REPLY)**

A trade deficit must be exactly matched by an offsetting capital surplus.

**NEW QUESTION: 216**

Which approach predicts that if an economy operates at full employment and faces a trade deficit, currency devaluation (depreciation) will improve the trade balance only if domestic spending is cut, thus freeing resources to produce exports?

- A. Elasticities approach.
- B. Marshall-Lerner approach.
- C. Absorption approach.

**Answer: C (LEAVE A REPLY)**

If the economy is at full employment, then currency depreciation must reduce domestic expenditure in order to improve the trade balance.

**NEW QUESTION: 217**

What should an investment in common stock be categorized in balance sheet?

- A. Long-term investments.
- B. Either current assets or long-term investments.
- C. Neither current assets nor long-term investments.

**Answer: B (LEAVE A REPLY)**

Depending on management's intent to hold them for long-term or short-term.

**NEW QUESTION: 218**

To maximize profits, a perfectly competitive firm should do all of the following except:

- I). produce until economic profits are maximized.
- II). produce until marginal cost equals price.
- III). produce until marginal revenue equals marginal cost.
- IV). produce until per unit profits are maximized.

- A. I and IV.
- B. II and III.
- C. IV only.

**Answer: C (LEAVE A REPLY)**

Total profits are not maximized when per unit profits are maximized. It is maximized when  $MR = MC$

**NEW QUESTION: 219**

WePay, Inc. made the following dividend declaration:

"The Board of Directors of WePay, Inc. has declared a regular quarterly dividend of \$0.25 per share payable June 13, 2001 (a Wednesday) to all stockholders-of-record as of the close of business on May 17, 2001 (a Thursday)."

Assuming a three day settlement for WePay stock and no holidays in the weeks surrounding the record and payment dates, determine the ex-dividend date.

A. Tuesday May 15, 2001

B. Monday May 14, 2001

C. Monday June 11, 2001

**Answer: (SHOW ANSWER)**

With a three day settlement, the ex-dividend date would be two days prior to the holder-of-record date, which would be Tuesday May 15, 2001. If an investor bought WePay on Monday May 12, 2001, they would settle for it on Thursday May 17, 2001 and would be the holder-of-record at the close of trading on that date. Hence they would receive the dividend. Alternatively, if they bought it on

Tuesday May 15, 2001, they would settle on Friday May 18, 2001 which is the day after the holder-of-record date. Hence they would not receive the dividend.

#### **NEW QUESTION: 220**

Which one of the following is a source of cash, all else equal?

A. reducing accounts payable.

B. factoring accounts receivable.

C. retiring commercial paper, or renewing a committed line of credit at a bank.

**Answer: B (LEAVE A REPLY)**

Retiring commercial paper is a use of cash. Renewing a committed line of credit is not a source of cash because there is no net change in borrowing ability.

#### **NEW QUESTION: 221**

Given the following information about a company: Sales of \$1.2 million, Payables payment period of

60 days, Cost of goods sold equals 70% of sales. What is the company's average trade payables using a

365-day year?

A. \$14,000.

B. \$200,000.

C. \$138,082.

**Answer: (SHOW ANSWER)**

$COGS = (.7)(\$1,200,000) = \$840,000$   
 $365 \text{ days} / 60 \text{ days per payment period} = 6.08$  for the payables turnover ratio  
 $\$840,000 / 6.08 = \$138,082.2$

#### **NEW QUESTION: 222**

Which of the following statements describing options is FALSE?

- A. A put option will be exercised only if the market value of the underlying asset is less than the exercise price.
- B. A put option holder's profit increases when the value of the underlying asset increases.
- C. A call option will be exercised only if the market value of the underlying asset is more than the exercise price.

**Answer: B (LEAVE A REPLY)**

### NEW QUESTION: 223

Information regarding the defined-benefit pension plan of Tri Cities Transport included the following for 2003 (\$ in millions):

Service cost: 48. Interest cost: 32. Actual and expected return on plan assets: 26. Amortization of unrecognized net gain: 3. Amortization of unrecognized prior service cost: 5. Retiree benefits paid (end of year): 50.

What is Tri Cities' pension expense for 2003?

- A. \$56 million.
- B. \$62 million.
- C. \$98 million.

**Answer: A (LEAVE A REPLY)**

Service cost (\$48) + interest cost (\$32) - expected return on plan assets (\$26) - amortization of unrecognized net gain (\$3) + amortization of unrecognized prior service cost (\$5) [in millions].

### NEW QUESTION: 224

Michelieu tells a prospective client, "I may not have a long-term track record yet, but I'm sure that you'll be very pleased with my recommendations and service. In the three years that I've been in the business, my equity-oriented clients have averaged a total return of more than 26 percent a year." The statement is true, but Michelieu only has a few clients and one of his clients took a large position in a penny stock (against Michelieu's advice) and realized a huge gain. This large return caused the average of all of Michelieu's clients to exceed 26 percent a year. Without this one investment, the average gain would have been 8 percent a year.

Has Michelieu violated the Standards?

- A. Yes, because he did not consider the clients investment preferences when stating his performance.
- B. Yes, because his statements do not fairly and accurately reflect his track record.
- C. No, because the 30% return is in fact a true record of Kent's performance.

**Answer: B (LEAVE A REPLY)**

Standard I (C) - Misrepresentation. Although Michelieu's statement regarding the total return of his client's accounts on average may be technically true, it is misleading because the majority of the gain resulted from one client's large position taken against Michelieu's advice. He has not taken steps to present a fair, accurate and complete presentation of performance. Even though he is not guaranteeing future results, his words are still a misrepresentation of performance. Not

disclosing the risk preferences of clients does not make a statement misleading and is not a violation of the Standards in this context.

**NEW QUESTION: 225**

If your new business (in which you have invested \$50,000, which you previously kept in savings, earning 10% interest) earns an accounting profit of \$30,000 in the first year, and you had previously been employed as a ditch-digger, earning \$10,000 per year, your economic profit is:

- A. -30,000.
- B. 15,000.
- C. \$20,000.

**Answer: (SHOW ANSWER)**

Economic profit is total revenue minus both explicit and implicit costs. Accounting profit includes only explicit costs. Thus your economic profit is  $30,000 - 10,000$  (foregone salary)  $- 5,000$  (foregone interest) = 15,000. The \$50,000 is not an opportunity cost, because it is not gone, merely invested in the business.

**NEW QUESTION: 226**

Credit investors may use the financial information to make economic decisions, including:

- I). Determining the creditworthiness of a company.
- II). Assigning a debt rating to a bond issue.
- III). Valuating a stock for making an investment recommendation to others.
- IV). Examining compliance with debt covenants or other contractual arrangements.

- A. I, II, III and IV.
- B. I, II and III.
- C. I, II and IV.

**Answer: (SHOW ANSWER)**

III is mainly for equity investors (or their analysts).

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**NEW QUESTION: 227**

In Harvey, N.D. three local banks have issued no-interest loans in the form of Harvey Bucks. They can be spent in local stores. Retailers get 95 U.S. cents for each Harvey Buck. From this information you can conclude that Harvey Bucks:

- A. although less liquid than Fed Notes, are money because they are accepted as money and they are assets of everyone who holds them.
- B. are not money because they are liabilities for consumers who have been issued Harvey Bucks.
- C. are not money because they are not backed by the Federal government.

**Answer: B (LEAVE A REPLY)**

Harvey Bucks function like credit cards. For those consumers who have been issued Harvey Bucks, they are liabilities. To be money they would have to be financial assets for everyone who holds them.

#### **NEW QUESTION: 228**

An investment banking department of a brokerage firm often receives material nonpublic information that could have considerable value if used in advising the firm's brokerage clients. In order to conform to the Code and Standards, which of the following is the best policy for the brokerage firm?

- A. Establish physical and informational barriers within the firm to prevent the exchange of information between the investment banking and brokerage operations.
- B. Monitor the exchange of information between the investment banking department and the brokerage operation.
- C. Prohibit purchase recommendations when the investment banking department has access to material nonpublic information but, in view of the fiduciary obligations to clients, allow sale of current holdings.

**Answer: (SHOW ANSWER)**

#### **NEW QUESTION: 229**

Kent Hold is tendering for a future client. He informs the client that he is an expert portfolio manager and has averaged a 30% annual return for his clients over the past two years. However Kent does not inform his client is that in this time period he only managed two accounts. In addition a large part of the return that he achieved was as a result of a large delisting. Without this delisting the return would have only been 12% average per annum.

Has Kent violated the Standards of Professional Conduct?

- A. Yes, because he did not consider the clients investment preferences when stating his performance.
- B. Yes, because his statements do not fairly and accurately reflect his track record.
- C. No, because the 30% return is in fact a true record of Kent's performance.

**Answer: B (LEAVE A REPLY)**

A misrepresentation is any untrue statement of a fact or any statement that is otherwise false or misleading. Although Kent's statement is factually correct they are misleading since his statements do not fairly and accurately reflect his track record.

#### **NEW QUESTION: 230**

Under the null hypothesis,  $H_0$ ,  $x = y$ . Under the alternative hypothesis,  $x$  does not equal  $y$ . If the critical z-statistic for the desired significance level is 1.68 and you find the z-statistic to be -3.2, you should:

- A. Accept the null hypothesis.
- B. Reject the null hypothesis.
- C. Fail to reject the null hypothesis.

**Answer: B (LEAVE A REPLY)**

Since the z-statistic is larger in magnitude than the critical value, you should reject the null hypothesis. Note that all the other alternatives loosely mean the same thing.

### NEW QUESTION: 231

Variable  $X$  is distributed normally and has a mean of 10. If the probability that an observation of  $X$  will be negative is 0.16, what is the coefficient of variation of  $X$ ?

- A. 0.1
- B. 1.0
- C. 0.32

**Answer: (SHOW ANSWER)**

The probability that  $X$  lies a distance 10 below the mean is given to be 0.16. Since the normal distribution is symmetric about the mean, this implies that the probability that  $X$  will be 10 greater than the mean is also 0.16. Thus, the probability that  $X$  lies between 0 and 20 is  $1 - 0.16 - 0.16 = 0.68$ . For a normal distribution, 68% of the observations lie within one standard deviation of the mean. Hence, the standard deviation of  $X$  equals 10. The coefficient of variation is then equal to  $\text{standard deviation}/\text{mean} = 10/10 = 1$ .

### NEW QUESTION: 232

A portfolio consists of 45% of wealth invested in the market portfolio and the remaining in risk-free T-bills yielding 6.3%. The market portfolio has an expected return of 17% and a standard deviation of 19%.

The beta of the portfolio is \_\_\_\_\_.

- A. 0.55
- B. 0.45
- C. 1.0

**Answer: B (LEAVE A REPLY)**

If your wealth is divided between the market portfolio and the risk-free asset, the portfolio beta equals the fraction invested in the market portfolio. It is instructive to prove this either by using the CAPM equation directly or by calculating the covariance between the portfolio and the market.

### NEW QUESTION: 233

Which of the following statements regarding a lessor's direct-financing lease is generally true?

- A. The present value of both the lease payments and any unguaranteed residual value is greater than the lessor's investment in the property.
- B. The present value of both the lease payments and any unguaranteed residual value is equal to the lessor's investment in the property.
- C. The present value of both the lease payments and any unguaranteed residual value is less than the lessor's investment in the property.

**Answer: B (LEAVE A REPLY)**

The lessor usually calculates the periodic payments based upon the amount of the investment that will be recovered. The equation would be that the investment is equal to the present value of the payments plus the present value of the residual value (guaranteed or un-guaranteed).

#### **NEW QUESTION: 234**

Which of the following is NOT incorporated into calculation of the DuPont identity?

- A. Return on assets
- B. Equity multiplier
- C. Receivables turnover

**Answer: (SHOW ANSWER)**

The third one is total asset turnover.

#### **NEW QUESTION: 235**

An options investor longs one index put option on the Standard & Poor's 100 Index (S&P100).

The put has the following characteristics:

Type of option: put option Underlying asset: S&P100 Exercise price: 640 Premium: 0.31

Expiration date:

October

The current price of the S&P100 is 787.77. This long put option is:

- A. in the money in the amount of 147.77
- B. out of the money in the amount of 639.69
- C. out of the money in the amount of 147.77

**Answer: C (LEAVE A REPLY)**

Since the current price is greater than the exercise price, the put option is out of the money.

The difference between the current price and the exercise price is 147.77.

#### **NEW QUESTION: 236**

When comparing FIFO with LIFO, which of these arguments is incorrect? (Assume rising prices.)

- A. FIFO more closely follows the actual physical flow of many inventory items
- B. The dollar amount reported as cost of goods sold under FIFO more closely approximates current cost of goods sold
- C. The dollar amount reported as ending inventory under FIFO more closely approximates the current cost of inventory

**Answer: B (LEAVE A REPLY)**

A is correct because the FIFO method more closely follows the actual physical flow of most inventory items. B is incorrect because LIFO, not FIFO, reports the more recent, higher-priced goods as cost of goods sold. C is correct because ending inventory under FIFO is comprised of the newer, higher-priced goods, which is a closer approximation of current costs.

**NEW QUESTION: 237**

Which of the following is not a typical example of non-recurring items?

- A. Sale of a subsidiary or a building.
- B. Lawsuits
- C. An extremely large loss on operations.

**Answer: C (LEAVE A REPLY)**

Gains or losses from the sale of corporate fixed assets, lawsuits, or similar events that would not be expected to occur often, if ever again.

**NEW QUESTION: 238**

Which of the following is true?

- A. All central bank transactions are excluded from balance of payment accounts.
- B. All cash flows associated with foreign investments belong to the capital account.
- C. Repatriation of domestic currency to a foreign country by foreign nationals living in the country is treated as part of the Current account.

**Answer: C (LEAVE A REPLY)**

A is false - Official assets are included in financial account. B is false - Such cash flows belong to the financial account. However, income associated with investment is treated as part of the current account. III is a direct outflow of domestic currency and is treated as a debit entry on the current account.

**NEW QUESTION: 239**

A property bought for \$500,000 and sold for \$720,000 after 7 years. What rate of interest was earned on the investment over the 7 years?

- A. 5.31%.
- B. 5.32%.
- C. 5.35%.

**Answer: C (LEAVE A REPLY)**

Using Texas Instruments BA II Plus: 500000 +/- PV: PV = -500,000 720000 FV: FV = 720,000  
7 N: N = 7.00 CPT I/Y: I/Y = 5.35

Using Hewlett Packard hp 12 C: f CLEAR FIN: 0.000000000 f CLEAR REG: 0.000000000 7 n:  
7 .00000000 500000 CHS PV: -500,000.0000 720000 FV: 720,000.0000 i: 5.34725241.

**NEW QUESTION: 240**

Which of the following is not included in computing cash flow from operating activities?

- A. payments to lenders for interest

B. dividends received

C. dividends paid

**Answer: C (LEAVE A REPLY)**

Dividends paid are included in financing activities because dividends paid provide a return to owners on their investment.

### NEW QUESTION: 241

The price in a stock market line chart is usually the:

A. opening price.

B. closing price.

C. the average of low and high prices.

**Answer: B (LEAVE A REPLY)**

The closing price is often considered to be the most important price in stock data compared to the high and low for the day and this is why it is the only value used in line charts.

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### NEW QUESTION: 242

Which statement is false?

A. Public equity markets are much larger than the private equity markets.

B. Public equity securities are more liquid than private equity securities.

C. Public equity funds are more likely to challenge the way the businesses are run and improve operations of these businesses.

**Answer: (SHOW ANSWER)**

Management in a private company is more likely to adopt a long-term focus.

### NEW QUESTION: 243

A firm made donations of \$50,000 this year. The donations were expensed for financial reporting purposes but not allowed so for tax purposes. The tax base and carrying amount of this item are:

A. \$0 | \$0.

B. \$50,000 | \$0.

C. \$0 | \$50,000.

**Answer: A (LEAVE A REPLY)**

Since the amount was expensed so the carrying amount is \$0. The tax base of the donations is also \$0 since the donations are not tax deductible. Notice this represents a permanent difference which will not be reversed in future.

**NEW QUESTION: 244**

Which of the following is a form of internal credit enhancement?

- A. Senior/subordinate debt structures
- B. A corporate guarantee or a letter of credit
- C. MBIA municipal bond insurance or Municipal bond insurance "wrap".

**Answer: A (LEAVE A REPLY)**

The senior/subordinate debt structure is an example of an internal credit enhancement. It is common for issuers of debt securities to employ means designed to enhance the credit rating of their debt.

There are two general types of credit enhancement - internal and external. External credit enhancement usually comes in the form of bond insurance, a letter of credit, or a corporate guarantee. Internal credit enhancements typically are employed in a more complicated form, and include reserve funds, over collateralization, and the senior/subordinate structure of debt securities. MBIA stands for "Municipal Bond Insurance Association," an insuring body that caters to the municipal bond market. Any form of bond insurance is frequently referred to as a "wrap."

**NEW QUESTION: 245**

All of the following statements about accounting practices are true EXCEPT:

- A. Violation of a long-term debt covenant will cause the debt to be classified as short-term debt if the condition is not reversed before the end of the accounting period.
- B. Commitments under unconditional purchase obligations that provide financing to suppliers need not be recognized on the purchaser's balance sheet.
- C. Debt is considered to be extinguished if the firm places risk-free assets in an irrevocable trust solely for extinguishing that debt.

**Answer: A (LEAVE A REPLY)**

**NEW QUESTION: 246**

The less reliable a source, the \_\_\_\_\_ likely the information provided would be considered \_\_\_\_\_.

- A. less, non-public and material.
- B. less, material.
- C. more, material.

**Answer: B (LEAVE A REPLY)**

The source or relative reliability of the information determines materiality. The less reliable a source, the less likely the information provided would be considered material.

**NEW QUESTION: 247**

Which of the following are underlying assumptions of technical analysis?

- I). Past performance has no influence on future performance or market values.
  - II). Security prices adjust rapidly to stock market information.
  - III). Security prices move in trends, which persist for appreciable lengths of time.
  - IV). The market value of any good or service is determined solely by the interaction of supply and demand for the good or service.
- A. II and III only.  
B. I and IV only.  
C. III and IV only.

**Answer:** ([SHOW ANSWER](#))

**NEW QUESTION: 248**

The market price of stock X is now \$30. An order specifies the stock must be bought once the price drops to \$25 or below. This order is likely to be a:

- A. market order.  
B. limit order.  
C. stop order.

**Answer:** ([SHOW ANSWER](#))

Investors can issue limit orders, whereby they specify prices at which they are willing to buy or sell a security. For example, if the stock falls below the limit on a limit-buy order, then the trade is to be executed. Orders also can be limited by a time period (1 day, 1 week, 1 month, or good till canceled, etc.).

**NEW QUESTION: 249**

A decrease in resource prices will \_\_\_\_\_ short-run aggregate supply and \_\_\_\_\_ long-run aggregate supply.

- A. increase, increase.  
B. increase, does not affect.  
,  
C. does not affect, increase

**Answer:** B ([LEAVE A REPLY](#))

The size of the economy's resource base changes the long-run aggregate supply, and resource prices change the short-run aggregate supply. Unless the lower prices of resources reflect a long-term increase in the supply of resources, they will not alter long-run aggregate supply.

**NEW QUESTION: 250**

If a monopolist increases sales from 10 to 11 by lowering its price from \$40 to \$38, its marginal revenue is:

- A. \$2  
B. \$18

C. \$418

**Answer: B (LEAVE A REPLY)**

Total revenue increases from \$400 to \$418, so marginal revenue is \$18. \$2 is the change in average revenue.

**NEW QUESTION: 251**

Which of the following statements about the current ratio is accurate?

- A. The higher the current ratio the higher the level of cash in a firm
- B. Use of book values in calculation of this ratio is unacceptable because the market values of these assets and liabilities tend to deviate from book values
- C. It will always be greater than the quick ratio in companies that carry inventory

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 252**

Which of the following is not considered to be a type of credit risk?

- I). default risk.
- II). credit spread risk.
- III). downgrade risk.

- A. II.
- B. I or III.
- C. None of the above.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 253**

Security A has an expected return of 18% and a standard deviation of 40%. Securities B and C each have expected returns of 12% and standard deviations of 20%. If the correlation between rates of return for A and B is 0.35, and for A and C is 0.85, then investors holding only A:

- A. who want to reduce risk would be better off adding B to their portfolios
- B. who want to reduce risk would be better off adding C to their portfolios
- C. would need to know the correlation between rates of return for B and C to determine which security offers the best opportunity for risk reduction

**Answer: (SHOW ANSWER)**

Since B and C have the same expected return and standard deviation, the lower correlation of A and B will provide portfolios with superior opportunities to reduce risk.

**NEW QUESTION: 254**

Operating leverage is a measure of the

- A. Sensitivity of fixed operating costs to changes in variable costs.
- B. Sensitivity of net earnings to changes in operating earnings.
- C. Sensitivity of earnings before interest and taxes to changes in the number of units produced and sold.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 255**

The firm's short-run supply curve is:

- A. the marginal cost curve.
- B. the marginal cost curve above average variable cost.
- C. the marginal cost curve above average total cost.

**Answer: (SHOW ANSWER)**

The marginal cost curve shows what quantity the firm will produce, given that price is at least equal to minimum average variable cost. Below minimum average variable cost, the firm supplies zero in the short run.

**NEW QUESTION: 256**

BWT, Inc. shows the following data in its financial statements at the end of the year. Assume all securities were outstanding at the beginning of the year:

6.125% convertible bond, convertible into 33 shares of common stock. Issue price \$1,000, 100

\*

bonds outstanding.

6.25% convertible preferred stock, \$100 par, 3,710 shares outstanding. Convertible into 3.3

\*

shares of common stock, Issue price \$100

8% convertible preferred stock, \$100 par, 5,604 shares outstanding. Convertible into 5 common

\*

shares, Issue price \$80

12,380 warrants are outstanding with an exercise price of \$40. Each warrant is convertible into 1

\*

share of common. Average market price of common is \$53.00 per share. Common shares outstanding at the beginning of the year were 45,888. Net Income for the period was \$200,000, while the tax rate was 40%.

What were the Diluted EPS for the year?

- A. 2.16
- B. 2.20
- C. 2.28

**Answer: B (LEAVE A REPLY)**

$(100 \text{ bonds})(33 \text{ shares/bond}) = 3300 \text{ shares from bonds}$   
 $(100 \text{ bonds})(\$61.25 \text{ interest per bond}) = \$6125 \text{ interest paid}$   
 $(\$6125)(1-.4) = \$3675 \text{ interest saved}$   
 $(3710)(3.3) = 12243 \text{ shares from convertible preferred stock}$   
 $+ (5604)(5) = 28020 \text{ shares from the other convertible preferred stock}$   
 $= 40263 \text{ total shares common from the conversion of the preferred shares.}$   
 $(12,380 \text{ warrants})(\$40 \text{ exercise price}) =$

$\$495,200 / \$53 \text{ ave. price} = 9343 \text{ shares common}$   
 $12,380 - 9343 = 3,037 \text{ new shares from the warrants}$   
 $\text{Preferred dividends} = 3710 \text{ shares} \times 6.25\% = \$23187.5$   
 $\text{Preferred dividends} = 5604 \text{ shares} \times 8.00\% = \$44,832.00$   
 $\text{Total} = \$23188 + \$44832 = \$68020$   
 $\text{Diluted EPS} = \frac{[(200,000 - 68020) + 3675]}{(45,888 + 40,263 + 3,300 + 3,037)} = \frac{\$203675}{92488 \text{ shares}} = 2.20$

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**NEW QUESTION: 257**

An analyst has a client with a \$1,000,000 portfolio. The client may need to liquidate \$100,000 of the portfolio at the end of a particular year. The client does not want to invade the initial capital of \$1,000,000.

The table below summarizes different investment allocations.

	X	Y	Z
Expected annual return	20	10	13
Standard deviation of return	23	8	18

What is the probability that the return on the safety-first optimal portfolio will be less than the shortfall level

RL? Assume normality.

- A. 27%.
- B. 30%.
- C. 33%.

**Answer: (SHOW ANSWER)**

The probability is 33% that the return on the safety-first optimal portfolio will be less than the shortfall level, RL. The optimal Z value on X was 0.435. Thus:  $P(RA \geq 10) = N(-0.435)$ . The reading on table at 0.44 is 0.6700. The solution is thus  $1 - 0.6700 = 33\%$ .

**NEW QUESTION: 258**

An investor invested \$10,000 in an open-end mutual fund 90 days ago. Today his investment is worth only \$9,874. What is his annualized rate of return?

- A. -5.04%.
- B. -5.01%.

C. -4.83%.

**Answer: (SHOW ANSWER)**

The rate of return is  $(9,874 - 10,000)/10,000 = -1.26\%$ . The period is 90 days.

$(1 - 0.0126)(365/90) - 1 = -5.01\%$ .

**NEW QUESTION: 259**

A share repurchase may \_\_\_\_\_ EPS.

I). increase.

II). decrease.

III). have no effect on.

A. I only.

B. II only.

C. I, II and III.

**Answer: (SHOW ANSWER)**

The effect depends on whether the repurchase is financed internally or externally.

**NEW QUESTION: 260**

Under the percentage-of-completion method:

A. billings on construction contract are used in determining the percentage of the project completed to date.

B. accumulated construction costs can be used in determining the percentage of the project completed to date.

C. accumulated construction costs can be in determining the percentage of the project completed in the current year.

**Answer: B (LEAVE A REPLY)**

To use the percentage-of completion method, the firm must be able to estimate the portion of the contract that has been completed. One way to do this is to use the actual costs that have been incurred to date.

**NEW QUESTION: 261**

Jorgensen Products has just issued 25,000,000 in 4.50% annual coupon bonds at a market yield of

4.80%. The bonds have a maturity of 8 years. What adjustments would an analyst make to the CFF at the end of the first year?

A. Decrease by 51,543

B. Decrease by 488,681

C. Increase by 51,543

**Answer: C (LEAVE A REPLY)**

Proceeds of bond issue:  $PMT = 1,125,000$ ;  $I/Y = 4.80$ ;  $FV = 25,000,000$ ;  $N = 8$ ;  $CPT PV =$

$24,511,316$  Jorgensen will recognize this as a liability. Its annual interest will be,  $interest = 0.048$

x

$24,511,316 = 1,176,543$  Jorgensen records a CFO of  $-1,125,000$  based on the coupon payment. The analyst would reduce the CFO by  $51,543$  to reflect the higher interest cost ( $= 1,176,543 - 1,125,000$ ). The CFF would have to be increased by the same amount,  $51,543$ , to reflect the fact that this differential interest is owed and will be paid at maturity. Thus, CFF will have to be increased by  $51,543$ .

**NEW QUESTION: 262**

If the forward rate is higher than the spot rate, the price currency is said to be trading at a \_\_\_\_\_.

- A. forward premium.
- B. forward discount.
- C. spot premium.

**Answer: B (LEAVE A REPLY)**

Note that the base currency, not the price currency, is said to be trading at a forward premium.

**NEW QUESTION: 263**

Suppose there are  $2,500$  people in the nation of Utopia. Of the people over  $16$  years old,  $1,800$  are employed,  $200$  are unemployed and looking for work, and  $200$  are unemployed and are not looking for work. The unemployment rate in Utopia is \_\_\_\_\_.

- A.  $10\%$ .
- B.  $11.11\%$
- C.  $16\%$ .

**Answer: A (LEAVE A REPLY)**

The people not in the work force, the  $200$  unemployed who are not looking for a job, are not accounted for being unemployed. They are discouraged workers who have left the workforce. The unemployment rate is  $200/2000 = 0.1$  or  $10\%$ .

**NEW QUESTION: 264**

Which of the following is a valid reason for including real estate in an investment portfolio?

- A. Real estate returns have low correlations with stock and bond returns.
- B. Real estate investments have lower risk than stocks.
- C. Real estate transactions involve low costs.

**Answer: A (LEAVE A REPLY)**

Real estate returns exhibit low correlations with stock and bond returns. Real estate returns depend on the cash flows from the real estate and changes in its value. However, real estate investments generally have relatively low liquidity. In addition, real estate transactions involve large transaction costs and typically have high levels of property-specific (firm-specific) risks.

**NEW QUESTION: 265**

Creditors and investors use financial performance evaluation to judge a company's

- l). past performance.

II). current position.  
III). future potential and its related risk.

- A. II and III.
- B. I and III.
- C. I, II and III.

**Answer: C (LEAVE A REPLY)**

Creditors and investors use financial performance evaluation to judge a company's past performance, current position, and future potential and its related risk.

**NEW QUESTION: 266**

Consider the following data: 1, 7, 3, 3, 6, 4 The mean and median for this data are:

- A. 4.8 and 3
- B. 4 and  $3 \frac{1}{2}$
- C. 4 and  $3 \frac{1}{3}$

**Answer: B (LEAVE A REPLY)**

Mean =  $(1+7+3+3+6+4)/6 = 4$  Data arranged in ascending order: 1,3,3,4,6,7 Median =  $(3+4)/2 = 3.5$

**NEW QUESTION: 267**

The Mod Company issued a zero-coupon bond on January 1, 20x0, due December 31, 20x4. The face value of the bond was \$100,000. The bond was issued at an effective rate of 14% (compounded annually). The CFO before interest and tax in each year is \$60,000. EBIT in each year is \$70,000.

The cash proceeds of the bond issue are:

- A. \$51,937.
- B. \$100,000.
- C. \$60,000.

**Answer: A (LEAVE A REPLY)**

Cash proceeds on a bond:  $100,000/(1.14)^5 = \$51,937$ .

**NEW QUESTION: 268**

Suppose that the probability that Company AirCo gets a government contract to produce military jets is 0.65 and the probability that AirCo lays off 5,000 employees if they don't get the contract is 0.80. What is the probability that AirCo does not get the government contract and lays off 5,000 employees?

- A. 0.280
- B. 0.438
- C. 0.520

**Answer: A (LEAVE A REPLY)**

Let A denote the event that AirCo does not get the government contract and B denote the event that 5,000 AirCo employees are laid off. The probability of A is  $P(A) = 1 - 0.65 = 0.35$  and the

probability of B given A is  $P(B|A) = 0.8$ . The probability of A and B is  $P(AB) = P(B|A) P(A) = 0.80 \times 0.35 = 0.28$ .

**NEW QUESTION: 269**

If a company depreciates equipment by using MACRS for income tax purposes but uses the straight-line method for financial accounting purposes, the tax consequences resulting from the difference will affect:

- A. a deferred tax assets
- B. a deferred tax liability
- C. a valuation allowance to be deducted from equipment

**Answer: B (LEAVE A REPLY)**

This difference will result in taxable income being less than financial accounting income, in that expense is recognized earlier for tax purposes than for financial purposes. This will result in taxes to be paid in the future and the recognition of a deferred tax liability.

**NEW QUESTION: 270**

According to advocates of the quantity theory of money, a government that attempts to maintain a high level of output is likely to:

- A. be successful and generate a low rate of inflation.
- B. generate considerable inflation, but not enough to really hurt the economy.
- C. undermine the economy's future growth by producing a high level of inflation.

**Answer: C (LEAVE A REPLY)**

Inflation undermines growth by creating uncertainty, by making it more difficult for businesses to enter into contracts, and by increasing the costs of avoiding inflation.

**NEW QUESTION: 271**

Main Street contains 8 traffic lights. The lights work independently of each other and the probability one of the lights is green is 60%. The probability of travelling Main Street without stopping for a light is

\_\_\_\_\_ % (to the nearest 0.1%)

- A. 16.7%
- B. 0.1%
- C. 1.7%

**Answer: (SHOW ANSWER)**

Let  $x$  count the number of green lights. Now, random variable is binomial with  $N = 8$  and  $p = 0.6$ . To go through town without stopping for a light we need 8 green lights,  $P(x = 8) = P(8)$ .

Using the calculator and finding the distribution for  $x$ , we get  $P(8) = 0.0168 = 1.7\%$  (to the nearest 0.1%).

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**NEW QUESTION: 272**

If the Laspeyres index is 120, the Paasche index is 115, then the Fisher index is:

- A. 117.5.
- B. 117.47.
- C. 235.

**Answer: B (LEAVE A REPLY)**

It is the geometric mean of the two indices.

**NEW QUESTION: 273**

The monopolistically competitive industry produces an output at which price equals

- A. average total cost but is less than marginal cost.
- B. marginal cost but exceeds average total cost.
- C. average total cost but exceeds marginal cost.

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 274**

Regarding the disclosure requirements for intangible assets, which piece of information is required by

IFRS but not by U.S. GAAP?

- A. Whether the useful lives are indefinite or finite.
- B. Accumulated amortization expense.
- C. Gross carrying amount.

**Answer: A (LEAVE A REPLY)**

IFRS then have different requirements for intangible assets with indefinite or definite lives.

**NEW QUESTION: 275**

Consider the following transactional information for the investment account of an underwriting syndicate:

- 1 st Quarter Ending portfolio value: \$50,800,000 Total amount invested: \$46,100,000
- 2 nd Quarter Ending portfolio value: \$51,100,000 Total amount invested: \$50,800,000
- 3 rd Quarter Ending portfolio value: \$51,000,000 Total amount invested: \$51,100,000
- 4 th Quarter Ending portfolio value: \$54,500,000 Total amount invested: \$50,000,000

Using this information, what is the annual time-weighted rate of return for this portfolio? Assume no taxes or transaction charges.

A. 20.59% per year

B. 19.59% per year

C. 22.14% per year

**Answer: A (LEAVE A REPLY)**

The time-weighted rate of return is the preferred method of return calculation in the investment management industry, primarily because this method is not sensitive to significant additions and withdrawals of funds from portfolios under examination. The calculation of the time-weighted rate of return involves three steps, which are illustrated as follows:

Step 1: Price the portfolio immediately prior to any significant additions or withdrawals. Separate the portfolio into a series of sub-periods based on the dates of cash inflows and outflows.

Step 2: Calculate the holding period return for each sub-period.

Step 3: Determine the annualized holding period return by linking or compounding the holding period return of each sub-period. If the investment is for more than one year, use the geometric mean of the annual returns as the time-weighted rate of return. If the investment is for less than one year, compound the sub-period returns to obtain an annualized measurement.

To begin the process of determining the time-weighted rate of return, we would break the portfolio up into the subsequent series of cash flows. However, in this example, the cash flows are already aggregated for us and we can move on to the next step: determining the holding period return for each sub-period. This process is detailed as follows:

Quarter 1 holding period return =  $[(\$50,800,000 \text{ ending value} - \$46,100,000 \text{ invested}) / \$46,100,000 \text{ invested}] = 10.19523\%$

Quarter 2 holding period return =  $[(\$51,100,000 \text{ ending value} - \$50,800,000 \text{ invested}) / \$50,800,000 \text{ invested}] = 0.59055\%$

Quarter 3 holding period return =  $[(\$51,000,000 \text{ ending value} - \$51,100,000 \text{ invested}) / \$51,100,000 \text{ invested}] = (0.1957\%)$

Quarter 4 holding period return =  $[(\$54,500,000 \text{ ending value} - \$50,000,000 \text{ invested}) / \$50,000,000 \text{ invested}] = 9.00\%$

Now that the holding period return for each sub-period has been determined, we must annualize the return measure by taking the product of all four quarterly returns. This process is illustrated below:

$[(1 + .10195) * (1 + .00591) * (1 - .00196) * (1 + .09) - 1] = .2059 \text{ or } 20.59\%$

When calculating the time-weighted rate of return, remember that the total amount invested is the relevant figure, not the beginning portfolio value. Notice that during the fourth quarter, the total amount invested does not equal the ending amount for the third quarter. This differential could be explained by numerous phenomena. Perhaps the difference is due to a cash withdrawal from the account. Maybe it was used to pay expenses or meet an outstanding margin call. What is important to note is the fact that this money was not invested, and should not be included in the holding period return for the fourth quarter. So said, whenever possible you should use the total amount invested rather than the beginning portfolio value in the calculation of the sub-period

holding period return. If you chose 19.59%, remember that in the calculation of the time-weighted rate of return, it is the geometric mean that is used rather than the arithmetic mean.

**NEW QUESTION: 276**

Which of the following changes in financial position should be recorded but should not enter into the determination of net income, as identified by the FASB?

- A. Events that are recognized but not realized.
- B. Events that are recognized and realized.
- C. Events that are not realized or recognized.

**Answer: A (LEAVE A REPLY)**

These events are called elements of other comprehensive income, and are recorded as direct adjustments to stockholders' equity rather than as elements in the determination of net income. The components of comprehensive income are presented net of income tax.

**NEW QUESTION: 277**

Which of the following procedures is not applied when measuring the amount of the deferred tax asset or liability?

- A. The liability method must be used in measuring the deferred tax asset or deferred tax liability.
- B. The tax consequences of temporary differences must be measured by using enacted future tax rates, and the tax consequences of permanent differences are not recognized.
- C. The deferred tax asset or liability must be measured at its present value.

**Answer: (SHOW ANSWER)**

Present value is not used in determining the tax consequences.

**NEW QUESTION: 278**

An uptrend is when a security makes \_\_\_\_\_ lows and \_\_\_\_\_ highs.

- A. lower, higher.
- B. higher, higher.
- C. higher, lower.

**Answer: B (LEAVE A REPLY)**

An uptrend for a security is when the price goes to higher highs and higher lows.



**NEW QUESTION: 279**

The joint probability of three events is given as 35%. Their individual probabilities are 50%, 60%, and 80%. What should be their joint probability if they are independent?

- A. 35%
- B. 24%
- C. 63.3%

**Answer: B (LEAVE A REPLY)**

For the events to be independent, their joint probability should equal the product of their individual probabilities =  $0.50 \times 0.60 \times 0.80 = 0.24$ , or 24%. Since this is different from 35%, the events are not independent.

**NEW QUESTION: 280**

John has a LONG position in 20 October copper futures contracts. If he sells 20 October copper futures contracts, he will have closed his futures position by:

- A. offset
- B. exchange-for-physicals (EFP)
- C. delivery

**Answer: (SHOW ANSWER)**

By selling an identical number of identical contracts, John has canceled out or offset his LONG position.

**NEW QUESTION: 281**

A current account surplus reflects:

- A. high domestic private savings and investment, and government surplus.

B. high domestic private savings, low domestic investment, and government surplus.

C. high domestic private savings and investment, and government deficit.

**Answer: B (LEAVE A REPLY)**

$CA = Sp + Sg - I.$

### NEW QUESTION: 282

Which of the following is NOT a hedge fund classification?

A. Macro fund

B. Speculative fund

C. Event based fund

**Answer: B (LEAVE A REPLY)**

While different hedge funds have varying degrees of risk and they take positions in risky derivatives which may be quite speculative, this is not one of their classifications, however.

### NEW QUESTION: 283

A property can be purchased for \$180,000. The investor provides 20% as owner's equity and borrows the remainder at 8.50% p.a. The investor sells the property for \$170,000 in one year.

What is the rate of return to the investor? (Ignore costs associated with real estate transactions.)

A. -5.88%

B. -38.22%

C. -61.78%

**Answer: C (LEAVE A REPLY)**

The investor's equity investment was \$36,000 ( $180,000 \times 0.20$ ). The balance, \$144,000 ( $\$180,000 - \$36,000$ ) was borrowed. Upon the sale, the investor uses \$144,000 to payoff the loan and

\$ 12,240 ( $144,000 \times 0.085$ ) to pay the interest cost for one year. The realized return is calculated as follows:

$\text{Return} = [(\$170,000 - 144,000 - 12,240) - 36,000] / 36,000 = - 61.78\%.$

### NEW QUESTION: 284

A standard normal distribution has:

A. the mean equal to the variance

B. a mean of 0 and a variance of 1

C. a mean of 1 and a variance of 1

**Answer: B (LEAVE A REPLY)**

### NEW QUESTION: 285

Beresford Company leased equipment from Fisher Company on July 1, 2010, for an eight-year period expiring June 30, 2018. Equal annual payments under the lease are \$100,000 and are due on July

1 of each year. The first payment was made on July 1, 2010. The rate of interest contemplated by

Beresford and Fisher is 8%. The cash-selling price of the equipment is \$620,625 and the cost of the equipment on Fisher's accounting records was \$550,000. Assuming that the lease is appropriately recorded as a sale for accounting purposes by Fisher, what is the amount of profit on the sale and the interest income that Fisher would record for the year ended December 31, 2010?

A. \$0 and \$20,825.

B. \$70,625 and \$20,825.

C. \$70,625 and \$24,825.

**Answer: (SHOW ANSWER)**

The profit is the selling price less the cost:  $\$620,625 - \$550,000 = \$70,625$  The interest income is sales price less the payment received times the interest rate. 4% is used since it is half a year.  
 $(\$620,625 - \$100,000) \times .04 = \$20,825$

### NEW QUESTION: 286

If the nominal interest rate is 7%, then the effective annual rate is

I). 7.19 % with quarterly compounding.

II). 7.21% with monthly compounding.

III). 7.25 % with continuous compounding

Which one of the following is true?

A. I and III.

B. II and III.

C. I, II and III.

**Answer: A (LEAVE A REPLY)**

Using Texas Instruments BA II PLUS For m = 4

2 nd ICONV: NOM = previous value

2 nd CLRWORK: NOM = 0.00

7 ENTER: NOM = 7.00 DownArrow: EFF = 0.00 DownArrow: C/Y = previous value (\*\*)

4 ENTER: C/Y = 4.00 UpArrow: EFF = 0.00 CPT: EFF = 7.19 So (I) is correct

Note: For n = 12, replace 4 by 12 in line (\*\*)

Using HP 12C For m = 12

f CLEAR REG: 0.00000000

f CLEAR FIN: 0.00000000

7 ENTER: 7.00000000 (\*) 12 n divided by i: 0.58333333 100 CHS

ENTER PV: - 100.00000000 FV: - 107.2290081 Divided by 12: 7.22900810 So (II) is not correct

Note: For quarterly compounding, replace 12 by 4 in line (\*)

For m = 8 i.e. continuous compounding 1 ENTER: 1.00000000 7%: 0.07000000 g ex: 1.07250818

\*%: 7.25081810 so III is correct.

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**NEW QUESTION: 287**

Which of the following items is a credit in the U.S. balance of trade?

- A. the sale of a life insurance policy to an Italian, by an American company.
- B. the purchase of a German car by an American.
- C. a short-term loan extended to a South American by a U.S. resident.

**Answer: A (LEAVE A REPLY)**

The balance of payments is a summary of all economic transactions between a country and all other countries for a specific period of time. Transactions that create a demand for the nation's currency (or a supply of foreign currency) on the foreign exchange market are recorded as a credit or plus item. The only example of such an occurrence is when an Italian demands U.S. currency in order to purchase a life insurance policy from a U.S. company. He must pay for the policy in dollars and therefore supplies Euros to the market in exchange for U.S. dollars.

**NEW QUESTION: 288**

You have \$500 that you would like to invest. You have 2 choices: Savings Account A which earns 8% compounded annually or Savings Account B which earns 7.75% compounded semiannually. Which would you choose and why?

- A. A because it has a higher effective annual rate
- B. B because it has a higher effective annual rate
- C. B because it has the higher quoted rate

**Answer: A (LEAVE A REPLY)**

**NEW QUESTION: 289**

Which of the following statements is false?

- A. The optimal capital structure is that mixed of debt and equity (common and preferred stock) that maximizes the firm value.
- B. The optimal capital structure is where a value-maximizing firm wants to be, a long run objective.
- C. A value-maximizing firm will never have a capital structure different from the optimal capital structure.

**Answer: C (LEAVE A REPLY)**

Short-term deviations from the target capital structure are not uncommon and can be caused by fluctuations in interest rates and stock prices. Firms would typically adjust somewhat slowly to those target levels.

**NEW QUESTION: 290**

Equity real estate investment trusts are evaluated using common stock analysis techniques because:

- A. REITs trade on stock exchanges and over-the-counter markets as stocks do
- B. real estate markets tend to move in tandem with stock markets over time
- C. they offer a return in the form of an ongoing stream of income with the potential for capital appreciation

**Answer: C (LEAVE A REPLY)**

Equity REITs are valued using stock valuation techniques because they offer return streams that are similar in nature to those offered by equities, i.e. income and price appreciation.

**NEW QUESTION: 291**

The crowding-out model implies that a

- A. budget deficit is likely to stimulate aggregate demand and trigger a multiplier effect that will lead to inflation.
- B. budget deficit will increase the real interest rate and thereby retard private spending.
- C. budget surplus will retard aggregate demand and throw the economy into a downward spiral.

**Answer: B (LEAVE A REPLY)**

The crowding out theory implies that government borrowing drives up real interest rates and thus crowds out private investment. Private investment falls under higher interest rates because the cost of investment (the real interest rate) rises if the government borrows heavily. Under the usual law of supply and demand, the government causes the interest rate to rise under deficit spending because there is a limited supply of loanable funds. The government competes with the private sector for these resources and thus drives up the price (i.e., the interest rate).

**NEW QUESTION: 292**

A company has 50,000 stock options outstanding at year-end each convertible into a share of common stock. The exercise price is \$30 and the average price of the stock for the year has been \$40.

The effect on the calculation of diluted earnings per share would be

- A. add \$1,500,000 to the numerator and add 50,000 shares to the denominator.
- B. leave the numerator unchanged and add 37,500 shares to the denominator.
- C. leave the numerator unchanged and add 12,500 shares to the denominator.

**Answer: (SHOW ANSWER)**

There is no effect on the numerator since the cash received from the exercise of the options is not income. The denominator increases by 12,500 based on the treasury method. The method

assumes the company would repurchase as many shares as possible with the proceeds from the exercise.

Therefore,  $50,000 \times \$30 = \$1,500,000/40 = 37,500$ . Since they could repurchase 37,500 at the average stock price, there would be 12,500 shares still outstanding.

**NEW QUESTION: 293**

The effect of the recognition of loss due to impairment in the years after the recognition would be to:

- A. have no effect on return on assets or return on equity
- B. decrease the return on equity
- C. increase the return on assets

**Answer: (SHOW ANSWER)**

The assets will be decreased in the years following the recognition, while the income will increase due to the fact that less depreciation is recognized.

**NEW QUESTION: 294**

A survey of 144 retail stores revealed that a particular brand and model of a VCR retails for \$375 with a standard deviation of \$20. If 95% and 98% confidence intervals are developed to estimate the true cost of the VCR, what difference would they have?

- A. Interval widths
- B. Both interval widths and z-variates
- C. Z-variates

**Answer: (SHOW ANSWER)**

The interval widths and the z variates differ according to the rule chosen. The standard error is the same regardless.

**NEW QUESTION: 295**

Mike is a real estate broker and recently he helped John purchase a 5-year-old house in New York for

\$ 300,000, making \$12,000 (excluded in the \$300,000 house price) as his commission. The amount counted towards US GDP should be

- A. \$0, since the house is old.
- B. \$12,000 commission only.
- C. \$312,000, the total price John paid.

**Answer: B (LEAVE A REPLY)**

Transactions involving the exchange of goods or assets produced during previous periods are not included since they don't reflect current production. However, Mike provided services to arrange the sale and the \$12,000 commission should be counted.

**NEW QUESTION: 296**

The arbitrage free valuation approach uses the \_\_\_\_\_ on a \_\_\_\_\_ to discount each cash flow of a bond.

- A. weighted discount rate; bond of equal maturity
- B. individual discount rates; premium bond
- C. spot rates; zero coupon bond of equal maturity

**Answer: C (LEAVE A REPLY)**

The arbitrage free valuation approach uses the spot rates on a zero coupon bond of equal maturity to discount each cash flow of a bond.

#### **NEW QUESTION: 297**

Unemployment compensation:

- A. is an automatic stabilizer because it rises as income increases, slowing an economic expansion.
- B. is an automatic stabilizer because it falls as income increases, slowing an economic expansion.
- C. is not an automatic stabilizer.

**Answer: B (LEAVE A REPLY)**

Higher income generates higher employment and thus lower unemployment compensation, so aggregate demand does not increase as rapidly as it otherwise would.

#### **NEW QUESTION: 298**

Which exchange rate regime removes a country's domestic monetary policy?

- A. dollarization.
- B. target zone.
- C. fixed parity.

**Answer: A (LEAVE A REPLY)**

Dollarization removes domestic monetary policy.

#### **NEW QUESTION: 299**

Sampling error is:

- A. the difference between the observed value of a statistic and the quantity it is intended to estimate.
- B. denoted by the Greek letter alpha.
- C. very hard to determine in practice.

**Answer: A (LEAVE A REPLY)**

Sampling error is the difference between the observed value of a statistic and the quantity it is intended to estimate.

#### **NEW QUESTION: 300**

A forward rate agreement is an agreement to buy or sell

- A. an interest rate contract linked to, say, LIBOR.

B. an equity contract.

C. a foreign exchange contract.

**Answer: A (LEAVE A REPLY)**

A forward rate agreement is based on an interest rate. One side buys the rate and the other side sells the rate. At settlement, the difference between the contractual rate and actual rate is settled by indexing the amount to a notional principal.

### NEW QUESTION: 301

An analyst has gathered the following information about a company:

Balance Sheet

Assets Cash 100 Accounts Receivable 750 Marketable Securities 300 Inventory 850 Property, Plant &

Equip 900 Accumulated Depreciation (150) Total Assets 2750

Liabilities and Equity Accounts Payable 300 Short-Term Debt 130 Long-Term Debt 700 Common Equity

1 000 Retained Earnings 620 Total Liab. and Stockholder's equity 2750

Income Statement

Sales 1500 COGS 1100 Gross Profit 400 SG&A 150 Operating Profit 250 Interest Expense 25

Taxes 75

Net Income 150

What is the inventory turnover ratio?

A. 1.29.

B. 1.59.

C. 0.77.

**Answer: A (LEAVE A REPLY)**

Inventory turnover =  $1100(\text{COGS})/850(\text{inventory}) = 1.29$

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### NEW QUESTION: 302

Under the semi-strong form of the EMH, a company announcing stronger-than-expected earnings would present most investors with what type of abnormal profit opportunity?

A. no profit opportunity, because prices will adjust rapidly to the information

- B. no profit opportunity for small investors but the potential for modest profit for large, sophisticated investors such as mutual funds
- C. the potential for a modest profit as long as the investor acts within one or two hours

**Answer: (SHOW ANSWER)**

With semi-strong form efficiency, prices will adjust rapidly to new information, so by the time most investors have heard the earnings announcement and made decisions about their trading activity, the price will have already adjusted, thus eliminating the profit opportunity.

**NEW QUESTION: 303**

On May 25th, 2004, Dove Landing Corporation bought 2,500 shares of Hunt Corporation's common stock at a total cost of \$200,000. At 12/31/04 year-end, the Hunt Corp. stock was worth \$212,750. The stock is classified as a trading security. The income tax rate is 35%. Which one of the following reflects the proper treatment for Dove Landing's investment for the year 2004?

- A. No gain or loss.
- B. \$8,288 credit to stockholders' equity.
- C. \$12,750 unrealized gain.

**Answer: (SHOW ANSWER)**

The entry's debit is to a market adjustment account added to the investment account to bring it to current value at the end of the year 2004.

**NEW QUESTION: 304**

A mayor of a big city is interested in knowing the fate of the 2001 high school graduates of that city. To learn this, the mayor decides to conduct a survey. The population of this survey would be:

- A. High school seniors enrolled in the beginning of the 2000/2001 academic year.
- B. High school seniors enrolled in 2000/2001 who successfully finished high school.
- C. High school students enrolled during the 2000/2001 academic year.

**Answer: B (LEAVE A REPLY)**

The mayor is specifically interested in high school graduates. Therefore, the population must include seniors who completed their high school work during the 2000/2001 academic year.

**NEW QUESTION: 305**

The purchase of treasury stock

- A. increases total stockholders' equity and increases the number of outstanding shares.
- B. affects a company's legal capital.
- C. None of these.

**Answer: C (LEAVE A REPLY)**

The purchase of treasury shares decreases total stockholders' equity. It also decreases the number of outstanding shares but does not affect a company's legal capital.

**NEW QUESTION: 306**

Benny Len is an analyst at a large Brokerage house. Benny has recently done a study analyzing two years of historical information on the returns of stocks with high PE ratios. Benny concludes that these high PE stocks generate low returns and reports that these stocks should be sold from all client portfolios.

According to CFA Institute's Standards of Professional Conduct, which Standard of Professional Conduct has been violated?

- A. Standard III Duties to Clients (B: Loyalty, Prudence and Care).
- B. Standard I Professionalism (B: Independence and objectivity).
- C. Standard V Investment Analysis, Recommendations, and Action (A: Diligence and Reasonable Basis)

**Answer: C (LEAVE A REPLY)**

Standard V(A) - Diligence and Reasonable Basis - has been violated since Benny's conclusion is not supported by sufficient historical data. It should have been based on a more detailed historical review. Two years is NOT sufficient time to be able to generate such an opinion.

#### **NEW QUESTION: 307**

The Capital Market Line reflects risk in terms of

- A. beta.
- B. coefficient of variation.
- C. standard deviation.

**Answer: C (LEAVE A REPLY)**

The CML is the line that is tangent to the efficient frontier and has the intercept equal to the risk-free rate. It is plotted on the expected return versus the standard deviation plane.

#### **NEW QUESTION: 308**

Which one of the following requirements will not help to ensure the fair treatment of brokerage firm clients when a new investment recommendation is made?

- A. Limit the number of people in the firm who are aware in advance that a recommendation is to be disseminated.
- B. Establish procedures to ensure that institutional clients are informed of the new recommendation prior to smaller individual accounts.
- C. Monitor the trading activities of firm personnel.

**Answer: (SHOW ANSWER)**

There are other requirements as well, e.g. minimize elapsed time between the decision and the dissemination of a recommendation.

#### **NEW QUESTION: 309**

You are investigating whether the population variance of returns on the S&P 500 changed subsequent to September 11 2001. You gather data for 20 months before and after September 11. Mean monthly return, Standard Deviation, Variance Before September 11, 20, 2.987, 6.987, 48.818 After September 11,

20, 2.435, 4.987, 24.870

At the 0.01 level of significance:

- A. we reject the null hypothesis.
- B. the critical value is 1.962.
- C. we fail to reject the null hypothesis.

**Answer: C (LEAVE A REPLY)**

At the 0.01 level of significance,  $F = 48.818/24.870 = 1.963$  We use F tables at 0.005 level (0.01/2) and we have a value of 3.4. 1.963 is less than the critical value of 3.4 so we fail to reject the null hypothesis.

### NEW QUESTION: 310

An asset that is plotted above the security market line (SML) is

- A. over priced.
- B. under priced.
- C. either over priced, correctly priced, or under priced.

**Answer: B (LEAVE A REPLY)**

An asset that is plotted above the security market line (SML) is under priced because the expected rate of return on the security would be higher than that dictated by the beta of the stock. Its risk is too low to justify the high return.

### NEW QUESTION: 311

In January 1999 a private investor decided to allocate \$2,000 to a gas and electric utilities mutual fund,

\$ 5,000 to a small company mutual fund, and \$3,000 to a technology stock mutual fund. In 1999, the utilities fund had a return rate of 4.3%, the small company mutual fund had a return rate of 1.4%, and the technology stock mutual fund had a return rate of 8.5%. Find the average rate of return on this investment.

- A. 4.11%
- B. 4.73%
- C. 14.2%

**Answer: A (LEAVE A REPLY)**

The average return is the weighted average.

### NEW QUESTION: 312

To decrease the federal funds rate, the Fed can use open market operations to

- A. decrease the quantity of reserves demanded.
- B. increase the quantity of reserves supplied.
- C. decrease the quantity of reserves supplied.

**Answer: B (LEAVE A REPLY)**

The Fed cannot change the demand curve for reserves.

**NEW QUESTION: 313**

What is the effect on the basic earnings per share (EPS) equation when the proceeds received from the exercise of a warrant must be used to retire debt?

- A. The denominator must be adjusted, but not the numerator.
- B. The numerator and denominator must be adjusted.
- C. No adjustment is necessary.

**Answer: (SHOW ANSWER)**

The exercise of the warrant increases the weighted number of shares in the denominator. The retirement of debt will increase net income in the numerator since the firm will pay less interest.

**NEW QUESTION: 314**

Which of the following components reduces the annual pension expense amount?

- A. Actual return on plan assets.
- B. Amortization of unrecognized prior service cost.
- C. Expected return on plan assets.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 315**

The supporters of Judge Hyde want to prove that she has the support of more than 60% of the voters in the district. To accomplish this they take a random sample of 80 voters and find that 53 support Judge

Hyde. For a hypothesis test at the 5% level of significance, the null hypothesis,  $H_0$ , would be

\_\_\_\_\_.

A.  $H : p \geq 0.6625$

0

B.  $H : p \geq 0.60$

0

C.  $H : p = 0.60$

0

**Answer: C (LEAVE A REPLY)**

Because the group wants to prove that more than 60% support Judge Hyde,  $H$  is  $H : p > 0.6$ .

a a

Thus, the null hypothesis is  $H : p = 0.60$ .

0

**NEW QUESTION: 316**

A financial analyst has gathered the following information from balance sheet and income statement of a company:

Item	Amount
Net income	765
Increase in accounts receivable	69
Increase in inventories	54
Increase in other current assets	83
Decrease in accounts payable	37
Increase in wages payable	55
Decrease in notes payable	213
Increase in long-term debt	375
Loss on sale of fixed assets (net of tax)	33
Purchase of new plant and equipment	395
Sale of common stock	50
Dividends paid	128
Depreciation	184

What is the cash flow from operations?

- A. 761
- B. 577
- C. 794

**Answer: C (LEAVE A REPLY)**

CFO = 765 + 184 - 69 - 54 - 83 - 37 + 55 + 33 = 794. Gain or loss on sale of assets is CFI, not CFO.

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#### NEW QUESTION: 317

Assume that Company B is the only producer of breakfast cereal. If at the current level of production, the marginal revenue for a box of cereal is \$2.50 while the marginal cost is \$2.00, we would expect Company B to

- A. hold the level of production constant.
- B. increase the level of production.
- C. raise the price of a box of cereal.

**Answer: B (LEAVE A REPLY)**

The monopolist will continue to increase production as long as marginal revenue is greater than marginal cost.

**NEW QUESTION: 318**

Assume that in Canada the opportunity cost of producing 1 television set is 2 bushels of wheat. Assume that in the U.S. the opportunity cost of producing 1 bushel of wheat is 2 television sets. All other things being equal:

- A. Canada should import wheat and export televisions.
- B. The U.S. should import wheat and export televisions.
- C. The U.S. should import both televisions and wheat.

**Answer: B (LEAVE A REPLY)**

Since the opportunity cost of producing a television set in the U.S. (1/2 bushel of wheat) is less than the opportunity cost of producing a television set in Canada (2 bushels of wheat), the U.S. has a comparative advantage in television production.

**NEW QUESTION: 319**

In an efficient market, if an asset's intrinsic value is estimated to be \$15 while the market price is \$12, the asset appears to be:

- A. overvalued.
- B. undervalued.
- C. uncertain.

**Answer: (SHOW ANSWER)**

In such a market the market price should be very similar to the intrinsic value.

**NEW QUESTION: 320**

Risk aversion has all of the following implications for the investment process EXCEPT:

- A. the promised yield on AAA-rated bonds is higher than on A-rated bonds.
- B. investors prefer portfolios that lie on the efficient frontier to other portfolios with equal rates of return.
- C. the security market line is upward sloping and investors expect a positive relationship between expected return and expected risk.

**Answer: A (LEAVE A REPLY)**

**NEW QUESTION: 321**

Consider the following information about a fund. The fund has been in existence for 3 years. Over this period it has achieved a mean monthly return of 3% with a sample standard deviation of

monthly returns of 5%. It was expected to earn a 2.5% mean monthly return over the 3-year period.

Which test statistic do we use for conducting a test of the hypotheses?

- A. chi-squared test with 35 degrees of freedom.
- B. z-test with 36 degrees of freedom.
- C. t-test with 35 degrees of freedom.

**Answer: C (LEAVE A REPLY)**

This is a t-test because the population variance is not known. The degrees of freedom is always  $n - 1$  which in this case is  $36 \text{ months} - 1 = 35$ .

### NEW QUESTION: 322

A firm had an asset with a carrying value of \$600,000. The estimated future discounted cash flows from the use of the asset have decreased to \$300,000. If the fair value of the asset is \$350,000, an impairment loss should be recognized in the amount of (Under U.S. GAAP):

- A. \$50,000
- B. \$250,000
- C. \$300,000

**Answer: B (LEAVE A REPLY)**

The loss on impairment should be recognized for the excess of the fair value of the asset over the carrying value of the asset, if the fair value is available. If the fair value is not available, the discounted future cash flows can be used.

### NEW QUESTION: 323

Bramley Company has declared a 20% stock dividend. At the close of trading just prior to going ex-dividend, Bramley was at \$50 per share. At the open of trading on the ex-date, the price will be closest to

- A. \$40.00
- B. \$41.67
- C. \$60.00

**Answer: B (LEAVE A REPLY)**

At the start of trading on the ex-distribution date, there will be 20% more shares outstanding as at the close the previous day. Assuming no significant change in the total share value, the share price should be  $\$50/1.2 = \$41.67$ .

### NEW QUESTION: 324

Good Z can be bought and sold on both Market #1 and Market #2. Which of the following sets of prices for Good Z conform(s) to the no-arbitrage principle?

- I). Market #1 = \$75, Market #2 = \$75
- II). Market #1 = \$125, Market #2 = \$115
- III). Market #1 = \$87, Market #2 = \$87

**A. I and II.**

B. I and III.

C. II and III.

**Answer: (SHOW ANSWER)**

II illustrates irrational pricing and does not conform to the no-arbitrage principle.

**NEW QUESTION: 325**

Which of the following statements about deferred taxes is CORRECT?

A. Deferred taxes due to differences in depreciation methods used for reporting and tax accounting never reverse so long as the same methods are adhered to.

B. Deferred taxes due to interest earned on tax-exempt bonds are self-reversing at the time of maturity of the bond as bond premiums and discounts offset the coupon income over time.

C. Tax credits cause permanent differences.

**Answer: C (LEAVE A REPLY)**

Items that appear only on either financial statements or tax returns, but not on both, cause permanent non-reversing differences. The tax credits item only appears on the tax statement and does not reverse itself. Depreciation, on the other hand, is self-reversing under normal circumstances.

**NEW QUESTION: 326**

When economists say the demand for a product has increased, they mean that the

A. amount of the product that consumers are willing to purchase at various prices has increased.

B. price of the product has fallen and consequently consumers are buying more of the product.

C. demand curve for the product has shifted to the left.

**Answer: A (LEAVE A REPLY)**

An increase in the demand for a product implies that at a given price, consumers are willing to buy more units of the good. Suppose that at a price of \$10 consumers demand 2 restaurant meals. An increase in the demand for restaurant meals implies that individuals now demand 4 restaurant meals at the price of \$10/each.

**NEW QUESTION: 327**

BWT, Inc. shows the following data in its financial statements at the end of the year. Assume all securities were outstanding at the beginning of the year:

6.125% convertible bond, convertible into 33 shares of common stock. Issue price \$1,000, 100 bonds

\*

outstanding.

6.25% convertible preferred stock, \$100 par, 2,315 shares outstanding. Convertible into 3.3 shares of

\*

common stock, Issue price \$100

8% convertible preferred stock, \$100 par, 2,572 shares outstanding. Convertible into 5 common

\*

shares, Issue price \$80

9,986 warrants are outstanding with an exercise price of \$38. Each warrant is convertible into 1 share

\*

of common.

Average market price of common is \$52.00 per share.

\*

Common shares outstanding at the beginning of the year were 40,045.

\*

Net Income for the period was \$200,000, while the tax rate was 40%.

\*

What were the Basic EPS for the year?

A. 4.22

B. 3.97

C. 4.12

**Answer: (SHOW ANSWER)**

Basic EPS = (Net income - preferred dividends)/Wt Average shares of common =  $(\$200,000 - \$35,045)/40,045 = 164,955/40,405 = 4.12$

### NEW QUESTION: 328

What is the interest rate risk, in percentage price change, of a semiannual-pay 9%, 15-year bond with an 8.5% yield if rates decrease by 50 and 75 basis points?

A. -4.00; -3.875%

B. -2.12%; -4.31

C. 4.28%; 6.51%

**Answer: C (LEAVE A REPLY)**

Current price = 104.19. Full Valuation at -50 basis points = 108.65; +4.28%. Full Valuation at -75 basis points = 110.97; +6.51%.

### NEW QUESTION: 329

Bonds that are said to have a bullet maturity are:

A. those where the issuer is not required to make any principal repayments prior to the maturity date.

B. those where the issuer is not required to make any principal repayments after the maturity date.

C. those where the issuer is required to make principal repayments prior to the maturity date.

**Answer: A (LEAVE A REPLY)**

Bonds that are said to have a bullet maturity are those where the issuer is not required to make any principal repayments prior to the maturity date.

**NEW QUESTION: 330**

Which of the following ratios, when calculated using interim financial reports, would be least questionable?

- A. Receivable Turnover (Net Sales / Average Accounts Receivable)
- B. Current Ratio (Current Assets / Current Liabilities)
- C. Return on Assets (Net Income / Average Total Assets)

**Answer: B (LEAVE A REPLY)**

Ratios calculated from interim financial reports that use one balance sheet account and one income statement or statement of cash flows account are questionable because the income statement and statement of cash flows values represent accumulated amounts for less than one year, while the balance sheet values are full values similar to those at year end. The current ratio would be the least questionable ratio because it is calculated using two balance sheet accounts.

**NEW QUESTION: 331**

On January 1, 2000 the Trading Co. had 487,500 shares of common stock outstanding. During 2000 it had the following transactions that affected the common stock account:

February 1 Issued 141,000 shares

\*

March 1 Issued 10% stock dividend

\*

May 1 Acquired 142,000 shares of treasury stock

\*

June 1 Issued a 3-1 stock split

\*

October 1 Reissued 79,000 shares of treasury stock

\*

Determine the weighted average number of shares outstanding as of December 31, 2000.

- A. 1,771,025
- B. 1,425,350
- C. 1,502,900

**Answer: A (LEAVE A REPLY)**

Jan 1 - Feb 1:  $487,500 * 1.1 * 3 * 1/12 = 134,062.5$  Feb 1 - May 1:  $628,500 * 1.1 * 3 * 3/12 = 518,512.5$  May 1 - Oct 1:  $(628,500 * 1.1 * 3 - 142,300 * 3) * 5/12 = 686,687.5$  Oct 1 - Jan 1:  $(1,727,050 + 79,000) * 3/12 = 431,762.5$  Total: 1,771,025

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**NEW QUESTION: 332**

Given equal circumstances, which inventory method is the best to use for tax purposes (assume prices are rising)?

- A. average cost
- B. FIFO
- C. LIFO

**Answer: C (LEAVE A REPLY)**

LIFO reduces taxable income and thus reduces taxes.

**NEW QUESTION: 333**

The standard deviation of a large population is 20. To test:

$H(0): \mu = 4$  vs  $H(A): \mu > 4$

At level of significance .05, a sample of size 100 will be taken. You will reject  $H(0)$  if:

- A.  $\bar{X} \geq 7.3$
- B.  $\bar{X} \geq 7.8$  or  $\bar{X} = .2$
- C.  $\bar{X} \geq 7.8$

**Answer: A (LEAVE A REPLY)**

$Z = (\bar{X} - \mu) / (S / \sqrt{n})$

$1.645 = (\bar{X} - 4) / 2 \quad \bar{X} = 7.29$

**NEW QUESTION: 334**

An investor reads an article regarding one of his holdings. He is surprised to find out that there is significant evidence of massive accounting fraud at the firm. This source of risk is best described as:

- A. unsystematic
- B. systematic
- C. financial

**Answer: A (LEAVE A REPLY)**

This source of risk is unique to the firm.

**NEW QUESTION: 335**

An analysis of noncash accounts disclosed the following:

- a. Machinery was purchased for \$4,500 cash.
- b. \$10,000 was borrowed on a long-term note.
- c. 1,000 shares of common stock were issued at \$5 each.
- d. Cash dividends of \$2,000 were declared and paid.
- e. An investment was sold for \$23,000.

f. \$50,000 of bonds was retired at maturity.

The net cash provided by (or used in) financing activities was which of the following?

- A. A \$14,000 increase
- B. A \$37,000 decrease
- C. A \$23,000 increase

**Answer: B (LEAVE A REPLY)**

Cash provided by financing activities was (b) and (c): \$10,000 + \$5,000. Cash used in financing activities was (d) and (f): \$2,000 + \$50,000. Net cash flows used in financing activities: \$15,000 - \$52,000, a net decrease of \$37,000.

### NEW QUESTION: 336

This is an example of \_\_\_\_\_.



- A. line chart.
- B. bar chart.
- C. candlestick chart.

**Answer: C (LEAVE A REPLY)**

Note that the body of each candle is either shaded or clear.

### NEW QUESTION: 337

When a German consumer purchases a Canadian chain saw, this transaction is recorded as a:

- A. debit on the German current account.
- B. credit on the German current account.
- C. debit on the Canadian current account.

**Answer: A (LEAVE A REPLY)**

Every international transaction enters the balance of payments twice (once as a credit and once as a debit). One side of the transaction is a debit to the German current account, because it has to do with the import of merchandise. Additionally, the other side of the transaction will eventually result in a credit to the German balance of payments (either the capital or current account) depending on the action of the Canadian company.

**NEW QUESTION: 338**

Susan Brown has recently received her CFA charter. She sends a letter to her clients announcing her new designation. In the letter she describes the examination series and other requirements that she has fulfilled.

- A. She has not violated the Standards.
- B. She has violated the Standards because she sent the information in an unsolicited letter.
- C. She has violated the Standards because she must not use the abbreviation "CFA."

**Answer: A (LEAVE A REPLY)**

**NEW QUESTION: 339**

If you believe that one should buy and sell companies in line with their accounting figures, you should use \_\_\_\_\_ to measure value of markets.

- A. price weighted indices.
- B. fundamentally weighted indices.
- C. float-adjusted market-capitalization weighted indices.

**Answer: (SHOW ANSWER)**

A key belief behind the fundamental index methodology is that underlying corporate accounting/valuation figures are more accurate estimators of a company's intrinsic value, rather than the listed market value of the company.

**NEW QUESTION: 340**

Empirical probability is:

- A. a technique where past information is used to determine the probabilities in future.
- B. a technique where current information is used to determine the probabilities in future.
- C. a form of probability that takes into account the fact that some other event has occurred which is likely to affect the chance of our event occurring.

**Answer: A (LEAVE A REPLY)**

Empirical probability is a technique where past information is used to determine the probabilities in future.

**NEW QUESTION: 341**

A person's social security number is an example of which level of measurement.

- A. Nominal
- B. Ordinal

C. Interval

**Answer: A (LEAVE A REPLY)**

The correct answer is nominal since a person's social security number although numeric is just a label. Social security numbers cannot be ordered or ranked in any meaningful way.

**NEW QUESTION: 342**

A pre-refunded municipal bond is one in which

A. there are debt obligations with a non-binding pledge of tax revenue.

B. the original bonds are escrowed or collateralized by different obligations guaranteed by the U.S.

government.

C. the unlimited tax general obligation debt is the stronger form of general obligation pledge because it is secured by the issuer's unlimited taxing power.

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 343**

Cash dividends of \$48,500 were declared. The beginning and ending balance of the Cash Dividends

Payable account was \$8,000 and \$10,500, respectively. On the statement of cash flows, the cash dividend activity would be reported as which of the following?

A. Financing activity of \$46,000

B. Financing activity of \$48,500

C. Investing activity of \$48,500

**Answer: A (LEAVE A REPLY)**

The dividends declared added to the beginning balance of dividends payable is a total liability of \$56,500. The ending balance of dividends payable of \$10,500 means that \$46,000 of the dividends declared were paid.

**NEW QUESTION: 344**

Select the three most useful types of discussions regarding the impact of recently issued accounting changes in management's discussion.

I). The standard does not apply.

II). The standard will have no material impact.

III). Management is still evaluating the impact.

IV). The impact of adoption is discussed.

A. I, II and III.

B. I, II and IV.

C. II, III and IV.

**Answer: B (LEAVE A REPLY)**

III creates some uncertainty about whether the change might materially affect the company.

IV would be the most meaningful one.

**NEW QUESTION: 345**

Which of the following is most likely correct?

- A. If the geometric mean is negative, it means that the arithmetic mean must also be negative.
- B. The geometric mean return is a more appropriate measure of return compared to the arithmetic mean return.
- C. If the arithmetic mean returns is positive, it implies that the return over the entire period is positive.

**Answer: B (LEAVE A REPLY)**

Counter example for the two untrue statements: return of -90%, +50%, +50% gives a total return of -77.5%

**NEW QUESTION: 346**

The par value of a bond is

- A. the number of years over which the issuer has promised to meet the conditions of the obligation.
- B. the right of the issuer to retire the issue prior to the stated maturity date.
- C. the amount the issuer agrees to repay the bondholder by the maturity date.

**Answer: C (LEAVE A REPLY)**

The par value of a bond is the amount the issuer agrees to repay the bondholder by the maturity date.

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**NEW QUESTION: 347**

A worker who rejects a position while looking for one with better pay or benefits is considered to be:

- A. underemployed.
- B. discouraged.
- C. voluntarily unemployed.

**Answer: (SHOW ANSWER)**

Most frictional unemployment (unemployment when one is between jobs) is considered voluntary because one is looking for work rather than taking any job one finds.

**NEW QUESTION: 348**

Which of the following statements concerning diversification is incorrect?

- A. The primary factor affecting the diversification of a portfolio is each security's covariance with the other securities in the portfolio.
- B. Proper diversification can eliminate market risk.
- C. Diversification can reduce portfolio risk only if the security return correlation is less than 1.0.

**Answer: B (LEAVE A REPLY)**

Proper diversification can eliminate non-market or unsystematic risk, not market risk.

**NEW QUESTION: 349**

The main difference between the t and z statistic is that the t statistic

- A. is not normally distributed like the z statistic.
- B. is more variable than the z statistic.
- C. is less variable than the z statistic.

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 350**

Details of changes in accounting principles for depreciation are found

- A. on the balance sheet.
- B. on the income statement.
- C. in the notes to the financial statements.

**Answer: C (LEAVE A REPLY)**

The balance sheet accounts are not affected by cumulative effects of accounting changes for depreciation. The balances in the asset and related accumulated depreciation accounts are not affected by the change. Only the amount of the cumulative effect (net of taxes) is found on the income statement. Details are found in the notes to the financial statements.

**NEW QUESTION: 351**

Ms. Smith recently made a real estate purchase of \$120,000, using financing for 80% of this investment with debt costing 9.0% interest. What would be the rate of return on her equity if the value of the parcel increased by \$12,000 in her first year of ownership?

- A. 10%
- B. 20%
- C. 14%

**Answer: C (LEAVE A REPLY)**

Do not be fooled by the trap answers of 10% or 50%! The correct solution is NOT the \$ 12,000 appreciation divided by the cost of the \$120 000 original investment (i e 10%)

Furthermore the correct answer is NOT \$12 000 appreciation divided by the equity the \$120,000 original investment (i.e.

1 0%). Furthermore, the correct answer is NOT \$12,000 appreciation divided by the equity stake of

\$ 24,000 (i.e.50%). The correct answer requires that cash flow return be divided by the equity in the investment. Candidates should quickly determine that the equity in the investment is 20% of the \$120,000 purchase price or \$24,000. However, in order to compute the true ROI, analysts need to adjust the appreciation for related financing expenses.

Since the property appreciated \$12,000, the cash flow from the property is the \$12,000 appreciation less interest of \$8,640 ( $\$120,000 \times .80 \times .09$ ). Thus, her cash flow for the year was not \$3,360, not \$12,000.

The \$3,360 increase in cash flow divided by her original \$24,000 equity stake provided a return of 14%.

### **NEW QUESTION: 352**

Technicians do NOT believe:

- A. Trends and patterns are somewhat predictable.
- B. Fundamental analysis is a key input in determining security prices.
- C. Security price movements occur after fundamental developments unfold.

**Answer: C (LEAVE A REPLY)**

A - They believe trends and patterns tend to repeat themselves.

B - They believe so but they also believe fundamental analysis is not the only one.

C - they believe that security price movements occur before fundamental developments unfold.

### **NEW QUESTION: 353**

Empirical studies of mutual fund performance indicate that:

- A. selection of benchmark does not influence results
- B. more aggressive funds do not have higher risk
- C. an index-based strategy provides better results than most actively managed portfolios

**Answer: C (LEAVE A REPLY)**

Empirical evidence finds that funds using a buy-and-hold, or index, strategy offer the highest risk-adjusted returns. This suggests that most mutual fund managers do not have forecasting ability that can provide risk-adjusted returns above the market averages. The poor risk-adjusted performance of actively managed funds has led to the recent introduction and widespread acceptance of several mutual funds indexed to broad market averages.

### **NEW QUESTION: 354**

Suppose the quantity of x is measured on the horizontal axis. If the income consumption curve is vertical, then the income elasticity of demand for x is

- A. 0
- B. 1
- C. -1

**Answer: (SHOW ANSWER)**

### **NEW QUESTION: 355**

A bond is currently selling for \$91.42. It is a 7% coupon bond, with payments made semiannually, yielding 8.5% with 8 years remaining to maturity. If yields were to increase by 1.5% immediately, what would this bond sell for?

- A. \$83.74
- B. \$100
- C. \$101.74

**Answer:** [\(SHOW ANSWER\)](#)

$N=16, I/Y=5, PMT=3.5, FV=100, PV=?=83.74$

#### **NEW QUESTION: 356**

What are potential liabilities of a company such as possible damage awards due to lawsuits?

- A. commitments
- B. contingencies
- C. accrued liabilities

**Answer:** [B \(LEAVE A REPLY\)](#)

Contingencies are potential liabilities of a company including possible damage awards from lawsuits.

#### **NEW QUESTION: 357**

A company has undertaken a construction contract for 6,700,000, spread over three years with a projected gross profit of 40%. In the first quarter of the first year, the firm will book the following revenue and cost on the basis of percentage of completion method:

- A. revenues of 558,333 and production costs of 223,333.
- B. revenues of 558,333 and production costs of 335,000.
- C. revenues of 2,233,333 and 893,333.

**Answer:** [B \(LEAVE A REPLY\)](#)

According to the percentage of completion method, a firm books revenue in proportion to work completed. On a three year contract, 1/12th of the work would be completed in the first quarter of the first year assuming uniform production. On this basis, the company will book a revenue of 558,333 (=

$6,700,000/12$ ) and a cost of 60% of this amount or 335,000 ( $= 558,333 \times 0.6$ ). Cost of 60% is arrived at on the basis of 40% gross profit margin, by subtracting the latter from 100%.

#### **NEW QUESTION: 358**

Justin is trying to estimate the trailing P/E multiple of IBM. The current stock price is \$86.2. Justin gathers the following data from the company's financial statements:

IBM's current fiscal year ends in December 2002. The expected EPS for the 4th quarter of 2002 and the next fiscal year are \$0.48 and \$3.66, respectively. The trailing P/E of IBM is \_\_\_\_\_.

- A. 23.55.
- B. 33.67.
- C. 30.1.

**Answer: C (LEAVE A REPLY)**

To calculate the trailing P/E multiple Justin needs EPS data for the previous 4 quarters. The trailing P/E multiple is calculated by dividing the current market price per share by trailing EPS:

P/E =

Market Price / Trailing EPS =  $\$86.2 / \$2.86 = 30.1$

**NEW QUESTION: 359**

The \_\_\_\_\_ of the investor is (are) his or her investment goals, expressed in terms of both risk and return.

- A. objectives
- B. policy statement
- C. constraints

**Answer: A (LEAVE A REPLY)**

A careful analysis of the client's risk tolerance should precede any discussion of return objectives.

**NEW QUESTION: 360**

All of the following securities may affect the numerator in the basic EPS equation EXCEPT:

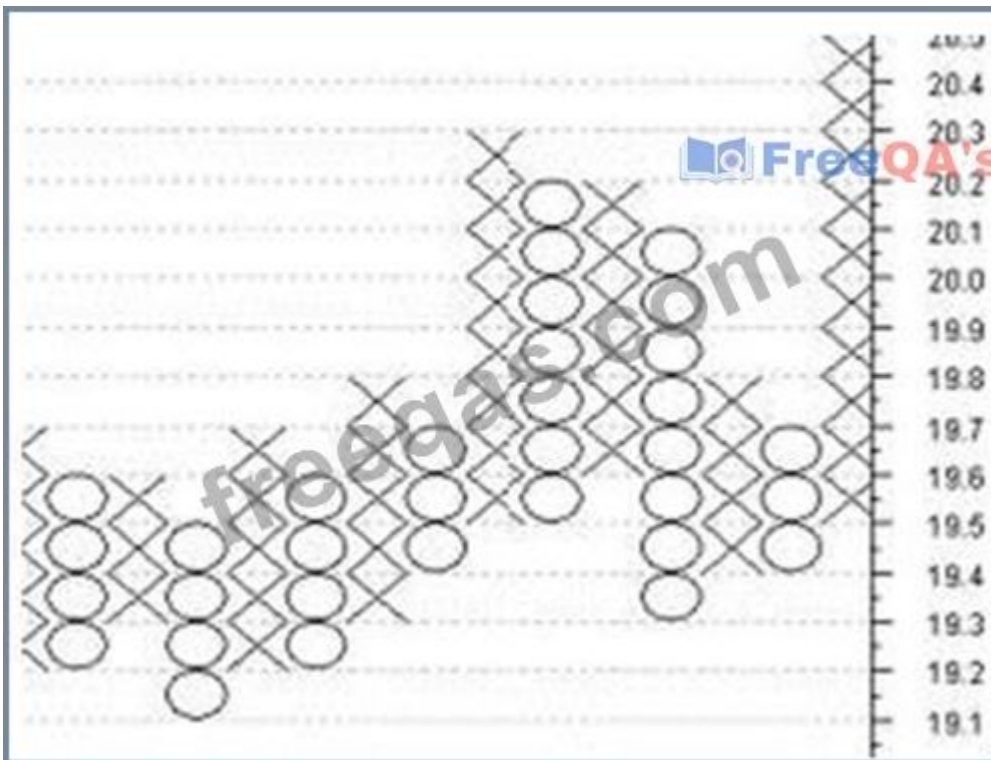
- A. options.
- B. restricted warrants.
- C. convertible preferred stocks or convertible bonds.

**Answer: A (LEAVE A REPLY)**

Options only affect the denominator in the basic EPS equation because option exercise has no impact on earnings available to the common shareholder. Warrants may affect the numerator if the proceeds generated via exercise are restricted to the retirement of debt, which will reduce the firm's interest expense and, thus, increase available earnings. If convertible preferred stock is dilutive, the convertible preferred dividends must be added back to earnings. If convertible bonds are dilutive, then interest expense  $\times (1-t)$  is added back to the numerator.

**NEW QUESTION: 361**

This is an example of



- A. Bar chart.
- B. Point and figure chart.
- C. Candlestick chart.

**Answer: B** ([LEAVE A REPLY](#))

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**NEW QUESTION: 362**

Jumbo, Inc. had sales of \$8,000 in November, \$14,000 in December, and projects sales of \$10,000 in

January, \$12,000 in February, and \$8,000 in March. The firm's COGS in any given month is equal to 70% of the next month's sales. The firm collects its receivables in 60 days and pays its payables in 30 days.

The firm begins January 1 with \$10,000 in cash. All sales and purchases are on credit. There are no other costs or revenues. What is Jumbo's cash balance at the end of January? Assume there are 30 days in every month.

- A. \$10,000.
- B. \$11,000.

C. \$12,000.

**Answer: (SHOW ANSWER)**

Did you get January collections of \$8,000 and payments of \$7,000?

**NEW QUESTION: 363**

What is the present value today of these annual cash flows: \$1,000, \$2,000, \$3,000? Assume the first cash flow occurs 1 year from today and an interest rate of 10% per year, compounded annually.

A. \$2,754.32.

B. \$4,104.98.

C. \$4,815.93.

**Answer: C (LEAVE A REPLY)**

You could solve this question using 3 different compound interest problems, but it is easier to solve them using the calculator's cash flow functions.

On the BAII Plus, press CF 2nd CLRWork 0 ENTER DownArrow 1000 ENTER DownArrow  
DownArrow

2 000 ENTER DownArrow DownArrow 3000 ENTER DownArrow DownArrow 2nd Quit. Then  
press NPV

1 0 ENTER DownArrow CPT.

On the HP12C, press these keys: 0 BlueShift CFo 1000 BlueShift CFj 2000 BlueShift CFj 3000  
BlueShift

CFj. Then press 10 i, YellowShift NPV.

The "DownArrow" represents the downward-pointing arrow on the top row of the BAII Plus  
keyboard.

Make sure that the BAII Plus has the P/Y value set to 1.

**NEW QUESTION: 364**

If the demand for a good is relatively inelastic, then the elasticity of demand for the labor used to produce the good will tend to be

A. zero.

B. relatively elastic.

C. relatively inelastic.

**Answer: (SHOW ANSWER)**

The elasticity of demand for labor depends on the labor intensity of the production process, the elasticity of demand for the product and the substitutability of capital for labor.

**NEW QUESTION: 365**

The unemployment rate is likely to understate the rate of actual unemployment because:

I). different ethnic groups have different unemployment rates.

II). some people choose to remain unemployed.

III). discouraged workers are not officially counted as unemployed.

IV). students are not officially counted as unemployed.

A. II and IV.

B. III and IV.

C. III only.

**Answer: C (LEAVE A REPLY)**

Discouraged workers, who would like to have jobs but have stopped actively looking, are not counted as unemployed, and thus the rate of unemployment may be understated (there are other reasons, such as underemployment, as well).

#### **NEW QUESTION: 366**

Trevor hears from his wife who has just spoken to the wife of the CEO of Company QAS, that they are about to fire the CFO of QAS. Trevor immediately sells his shares in QAS. In terms of The Standards of

Professional Conduct per Standard II(A) Material Non-Public Information, has Trevor violated the Standard?

A. Yes, because the information was misappropriated.

B. Yes, because the information is likely to cause a large price movement in the company's securities.

C. Yes, because he used material non-public information.

**Answer: C (LEAVE A REPLY)**

The information is material and non-public and Trevor should not act on it.

#### **NEW QUESTION: 367**

For a firm with a simple capital structure, all of the following are necessary to measure basic earnings per share (EPS) EXCEPT:

I). dividends paid to preferred shareholders.

II). number of shares outstanding at the beginning of the year.

III). the timing and number of shares issued or repurchased during the year.

IV). dividends paid to common shareholders.

A. I and IV.

B. II and III.

C. IV only.

**Answer: C (LEAVE A REPLY)**

Basic EPS = earnings available to common shareholders divided by the weighted average number of common shares outstanding. Earnings available to common shareholders equals net income - preferred dividends. The weighted number of common shares outstanding equals the number of shares outstanding during the year weighted by the proportion of the year they were outstanding.

#### **NEW QUESTION: 368**

Which of the following could lead to a rise in receivable days as calculated from the financial statements?

- A. Increase in the selling price of the firm's product
- B. Unexpected, large one-time credit sales at the end of the financial year
- C. Introduction of discounts on early payment

**Answer: B (LEAVE A REPLY)**

All of the other answers reduce receivables days. A key assumption of the receivables days calculation is that sales occur at a fairly constant level. If however, there is any form of sales build-up towards the end of the financial year, then the receivables days can be misleading. A large sale near the end of the year would increase sales and also the ending balance in Accounts Receivable.

### NEW QUESTION: 369

Which of the following is (are) true?

- I). A portfolio that lies above the efficient frontier is undervalued.
- II). Efficient portfolios minimize variance for a given level of expected returns.
- III). A zero beta portfolio is always efficient.
- IV). A stock with zero correlation coefficient with a portfolio is not useful for further diversification.

- A. II and III.
- B. II only.
- C. I and IV.

**Answer: (SHOW ANSWER)**

Note that I is not possible. By definition, the efficient frontier minimizes variance for a given level of expected returns. III is not necessarily true and IV is patently wrong! A zero correlation is quite desirable. Indeed, the lower the correlation, the better its diversification capabilities.

### NEW QUESTION: 370

The overnight repurchase rate for general collateral is 6.50%. For a dealer seeking financing using special collateral, the repurchase rate agreed to:

- A. will be greater than or equal to 6.50%
- B. will be less than 6.50%
- C. The dealer will not be able to borrow using special collateral

**Answer: B (LEAVE A REPLY)**

Because special collateral is desirable for other uses, lenders will bid lower repurchase rates to lend to borrowers in possession of special collateral.

### NEW QUESTION: 371

The key difference between an SMA and a mutual fund is that:

- A. The required minimum investment of an SMA is much higher than is the case with a mutual fund.
- B. In an SMA, assets are owned directly by the individual.

C. An SMA is managed by an investor while a mutual fund is managed by professional investment managers.

**Answer: C (LEAVE A REPLY)**

The investor has direct control over which assets are bought and sold and the timing of the transaction.

**NEW QUESTION: 372**

A decrease in income should:

- A. Shift demand for an inferior product inwards.
- B. Shift demand for an inferior product outwards.
- C. Shift supply for an inferior product outwards.

**Answer: B (LEAVE A REPLY)**

Remember consumers will buy less of an inferior good when they have more income as they switch to more luxurious products.

**NEW QUESTION: 373**

The probability that the price of a stock increases is 0.30. The price of the stock will either increase or decrease each day independently of what happened on the previous day. An experiment consists of observing the price of this stock during a 30-day period. What is the probability that the stock price will increase 10 days out of the 30 days?

- A. 0.03
- B. 0.1416
- C. 0.3333

**Answer: B (LEAVE A REPLY)**

The number of days that the stock price increases over this period follows a binomial distribution with 30 trials, a probability of success (increase in stock price) equal to 0.30 and a probability of failure (decrease in stock price) equal to 0.70. Therefore, the parameters of the distribution are  $n = 30$  and  $p = 0.3$ . The probability that the number of successes is 10 out of 30 trials is:  $p(10) = 0.1416$ .

**NEW QUESTION: 374**

Complete this sentence: "The kth percentile of a given distribution is ..."

- A. the score at which k% of the cases fall.
- B. the score below which k% of the cases fall.
- C. the score above which k% of the cases fall.

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 375**

An industry experiencing slowing growth, intense competition and declining profitability is best characterized as being in the \_\_\_\_\_ stage.

- A. growth

- B. shakeout
- C. mature

**Answer:** ([SHOW ANSWER](#))

Companies should focus on reducing their cost structure and building brand loyalty.

**NEW QUESTION: 376**

You are the landlord of a small office building. The rent is \$750 per year paid at the beginning of each year. You expect to sell the office building after 12 years. What is the present value of the rental payments at a rate of 3% per year?

- A. \$7,689.47
- B. \$8,483.36
- C. \$8,737.86

**Answer:** ([SHOW ANSWER](#))

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**NEW QUESTION: 377**

In a perfectly competitive market,

- A. The industry demand curve is horizontal.
- B. The industry demand curve is vertical.
- C. The firm's demand curve is horizontal.

**Answer:** ([SHOW ANSWER](#))

In a perfectly competitive market, while the demand curve facing the industry is downward sloping, the demand curve facing an individual firm is perfectly elastic, i.e., horizontal.

**NEW QUESTION: 378**

ABC issues 1 million shares from options exercises at \$5 and receives \$5 million. However, to avoid dilution of EPS, ABC repurchases all of these 1 million shares at the market price of \$10. Under GAAP, what amount will ABC report for this transaction?

- A. \$5 million operating cash inflow.
- B. \$5 million financing cash inflow.
- C. \$5 million financing cash outflow.

**Answer:** C ([LEAVE A REPLY](#))

Under GAAP the firm will report a \$5 million net outflow of cash from financing activities (1 million x (\$10 - \$5)). However, since the options are a form of compensation the cash outflow would be more appropriately categorized as operating cash flow.

**NEW QUESTION: 379**

A drop in the price level would:

- A. shift the aggregate demand curve to the right.
- B. shift the aggregate demand curve to the left.
- C. does not shift the aggregate demand curve at all.

**Answer: C (LEAVE A REPLY)**

It increases the quantity of goods demanded, and will cause a movement along (not shift of the curve) the demand curve.

**NEW QUESTION: 380**

Consider a two-year plain-vanilla swap. Fixed rate is 6%. Libor is currently 5.5%. Notional principal is

\$ 10 million. Who pays whom how much when the swap is originated?

- A. Fixed receiver pays the fixed payer \$25,000.
- B. Fixed payer pays the fixed receiver \$50,000.
- C. Nobody pays anybody anything.

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 381**

A company can determine if its \_\_\_\_\_ objective has been met by evaluating its ability to survive for many years.

- A. profitability.
- B. liquidity.
- C. long-term solvency.

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 382**

The key objective of monetary policy is:

- A. Stable prices.
- B. Maximum employment.
- C. Trade surplus.

**Answer: A (LEAVE A REPLY)**

Price stability encourages the maximum sustainable growth rate of potential GDP.

**NEW QUESTION: 383**

The seasonal output of a new experimental strain of pepper plants was carefully weighed. The mean weight per plant is 15.0 pounds, and the standard deviation of the normally distributed

weights is 1.75 pounds. Of the 200 plants in the experiment, how many produced peppers weighing between 13 and 16 pounds?

- A. 118
- B. 100
- C. 197

**Answer: A (LEAVE A REPLY)**

$z = (x-u)/o$ .  $z = (13 - 15)/1.75 = -1.1429$  and  $z = (16 - 15)/1.75 = 0.5714$ . The respective  
1 2

areas for those z-values are 0.3729 and 0.2157. Since they are on opposite sides of the mean, we add them up to find the area in between which is 0.5886. Therefore,  $0.5886 * 200 = 118$ .

### NEW QUESTION: 384

Keith Company incurred the following costs in 2002:

Merchandise purchased for resale: \$20,000 Sales commissions: 4,000 Interest on accounts payable:

1,000 Freight in 500

How much should be included in the cost of merchandise inventory?

- A. \$20,000
- B. \$21,000
- C. \$20,500

**Answer: C (LEAVE A REPLY)**

Cost of inventory includes material purchase costs and incidental costs. Incidental costs include freight charges. Therefore, inventory cost is material purchase costs of \$20,000 plus freight charges of \$500.

### NEW QUESTION: 385

SEC rule 12b-1 allows managers of certain funds to use a portion of the fund's average net assets every year for \_\_\_\_\_ expenses.

- A. marketing and distribution
- B. operating
- C. administrative

**Answer: A (LEAVE A REPLY)**

SEC rule 12b-1 allows funds to use a portion of assets under management for selling and promotional expenses associated with marketing and distributing fund shares.

### NEW QUESTION: 386

You are studying the finances of a life insurance company. You believe that if Company X generates at least \$150 million in earnings this year, they will pay a large amount of stock into a company bonus pool.

If the earnings can fall anywhere from \$110 million to \$165 million with equal probability, what is the likelihood they will hit the bonus pool target?

- A. 27.5%.
- B. 27.3%.
- C. 26.5%.

**Answer: B (LEAVE A REPLY)**

This is a continuous uniform distribution, where  $b = \$165$  million and  $a = \$110$  million.  $F(x) = (x - a) / (b - a)$  for  $a \leq x \leq b$ ;  $F(x) = 0$  for  $x < a$ , and  $F(x) = 1$  for  $x \geq b$ . We are solving for  $1 - F(150) = 1 - (150 - 110) / (165 - 110) = 1 - 40/55 = 27.3\%$ .

**NEW QUESTION: 387**

Jumbo, Inc. had sales of \$8,000 in November, \$14,000 in December, and projects sales of \$10,000 in January, \$12,000 in February, and \$8,000 in March. The firm's COGS in any given month is equal to

70% of the next month's sales. The firm collects its receivables in 60 days and pays its payables in 30 days. The firm begins January 1 with \$10,000 in cash. All sales and purchases are on credit. There are no other costs or revenues. What is Jumbo's accounts payable at the end of January? Assume there are 30 days in every month.

- A. \$5,600
- B. \$9,200
- C. \$8,400

**Answer: C (LEAVE A REPLY)**

Since the payables period is 30 days, the A/P balance will equal January purchases. How much was purchased in January?

**NEW QUESTION: 388**

When a company listed in the Russell 2000 index simply becomes too big to be included in that index, it then moves up to the Russell 1000 index and the Russell MidCap Index. This is called:

- A. Rebalancing.
- B. Reconstitution.
- C. Reindexing.

**Answer: B (LEAVE A REPLY)**

Reconstitution is the process of changing the constituent securities in an index.

**NEW QUESTION: 389**

A 5-year, semi-annual pay, 7-1/2% coupon bond is priced at par. The bond is callable beginning with the first coupon payment date 3 years from the present date. In the absence of default by the bond issuer:

- A. holders of this bond may receive as many as 10 cash flows or as few as 6
- B. holders of this bond may receive coupon interest as high as 5% per annum or as low as 2.5% per annum

C. holders of this bond may receive coupon interest as high as 7-1/2% per annum or as low as 3.75% per annum

**Answer: A (LEAVE A REPLY)**

There are two coupon payments per year for a semi-annual pay bond. The bond can be called on the first payment of the 3rd year, payment number 5.

**NEW QUESTION: 390**

Which rate determines when an economy will experience wage-push inflationary pressures?

A. The non-accelerating inflation rate of unemployment.

B. The actual unemployment rate.

C. CPI-based inflation rate.

**Answer: A (LEAVE A REPLY)**

The NAIRU determines when an economy will experience bottlenecks in the labor market.

**NEW QUESTION: 391**

Rank the following Portfolio Management Processes steps in the appropriate order:

A. Prepare policy statement, construct the portfolio, monitor and update investor needs.

B. Monitor investor needs, prepare policy statement, and construct the portfolio.

C. Prepare policy statement, gather feedback, and construct the portfolio.

**Answer: A (LEAVE A REPLY)**

The first step requires a development of the policy statement. The second step implements the plan by constructing the portfolio and then afterwards, monitoring and updating is conducted through a feedback loop.

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**NEW QUESTION: 392**

If an effective minimum price is imposed by the government, what would be expected to occur?

A. There will be a shortage.

B. There will be a surplus.

C. Nothing; the price is not an equilibrium price.

**Answer: B (LEAVE A REPLY)**

An effective price floor will set the price above the equilibrium price. At such a price, quantity supplied will exceed quantity demand. This is the definition of a surplus.

**NEW QUESTION: 393**

James Kon is the current manager of a firm's pension plan. To whom does James owe a fiduciary duty?

- A. The management of the company.
- B. The plan's beneficiaries.
- C. The owners of the company.

**Answer: (SHOW ANSWER)**

The following are the responsibilities of a pension plan fiduciary:

To act solely in the interest of the plan.

\*

To act for the exclusive purpose of providing benefits to the plan participants.

\*

To act with the care, skill, prudence, and diligence as defined by the prudent man.

\*

To diversify the plan's assets so as to minimize the risk.

\*

To refrain from engaging in prohibited transactions.

\*

**NEW QUESTION: 394**

Which of the following issues does a policy statement not address?

- A. Existing knowledge that the investor has in investments and capital markets.
- B. Additional capital or income sources available to the investor.
- C. Emotional reactions and risks to a positive financial outcome.

**Answer: (SHOW ANSWER)**

The policy statement does not worry about the emotional reactions or risks related to exceptional or strong performance (the investor should be so lucky!). The policy statement should address the following issues:

What are the risks of an adverse financial outcome? What are the emotional reactions to an adverse financial outcome? How knowledgeable is the investor to investments and markets? What other capital or income sources does the investor have? How important is the portfolio to the overall financial position? What legal restrictions may affect the investment needs? What unanticipated consequences of interim fluctuations in portfolio value may affect investment policy?

**NEW QUESTION: 395**

A portfolio has two securities with 35% and 65% allocations by market value. The first security has a return of 8% and the second security has a return of 14%. What is the unweighted, geometrically average return for the portfolio?

- A. 10.96%

B. 11.00%

C. 11.90%

**Answer: A (LEAVE A REPLY)**

$[(1 + .08) \times (1 + .14)]^{1/2} - 1 = 0.1096$ , or 10.96%

### NEW QUESTION: 396

Which of the following best explains why the return on assets (ROA) ratio may show distorted increases over time?

A. Net income is affected by inflation and total assets are getting older.

B. A firm acquires many new assets each period.

C. A firm may use replacement cost valuation for plant assets, and repairs and maintenance expense changes each year to correspond to asset replacement costs.

**Answer: A (LEAVE A REPLY)**

As the assets age, the net asset book value decreases and the return on assets ratio increases. This return ratio does not reflect economic substance, however, since income is measured in current period dollars while the denominator (assets) is measured using historical information rather than replacement information.

### NEW QUESTION: 397

An apartment building has a net operating income of \$35,400. The mortgage interest expense is \$ 8,500 and the income tax expense is \$2,600. The average market capitalization rate for similar properties is 9.20%. What is the property's value according to the income approach?

A. \$264,130

B. \$292,391

C. \$384,783

**Answer: C (LEAVE A REPLY)**

Net operating income (NOI) is calculated after deducting operating expenses from the gross rent. Income taxes are NOT deducted in calculating NOI). In addition, NOI is the income generated from operating a real estate investment and is NOT affected by the interest expense (i.e., financing choice).

The property's estimated value can be found as follows: Estimated value = Annual Net Operating Income

/ Market Capitalization Rate =  $35,400 / 0.092 = \$384,783$

### NEW QUESTION: 398

Which form of efficient market hypothesis asserts that security prices adjust rapidly to the release of all public information?

A. the strong form

B. the semi-strong form

C. the weak form

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 399**

A simple random sample is one where

- A. you choose each item with no regard to previous choices.
- B. you decide on a sample size and sample proportionately from the population.
- C. each item in the population has an equal chance of being chosen.

**Answer: C** ([LEAVE A REPLY](#))

**NEW QUESTION: 400**

To build a suitable portfolio for your client, you need

- A. knowledge of your clients' situation, experience and objectives.
- B. to have fiduciary responsibility.
- C. to focus on a very small number of industry sectors in detail.

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 401**

Which of the following characteristics is not representative of an industry that's in the maturity stage of its life cycle?

- A. Competition is intense among the rivals within the industry.
- B. There are a lot of companies from other industries entering into this particular industry.
- C. Instead of product differentiation, price is the primary competitive weapon.

**Answer: B** ([LEAVE A REPLY](#))

As an industry matures, sales are either stagnant or growing slowly. This lack of industry sales growth forces companies to increase sales by stealing market share from each other, often using price to lure away customers. All these factors make the industry a very unattractive market for new competitors to enter into.

**NEW QUESTION: 402**

Suppose that the probability of A is 0.80 and the probability of B is 0.60, if A and B are independent events, what is the joint probability of A and B?

- A. 0.48
- B. 0.75
- C. 0.80

**Answer: (SHOW ANSWER)**

Since A and B are independent events  $P(A) = P(A|B) = 0.8$  and  $P(AB) = P(A|B)P(B) = 0.80 \times 0.60 = 0.48$ .

**NEW QUESTION: 403**

Increasing the frequencies in the tails of a distribution will:

- A. not affect the standard deviation as long as the increases are balanced on each side of the mean.

- B. reduce the standard deviation.
- C. increase the standard deviation.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 404**

Company B is considering a capital investment project. The appropriate discount rate for the project is WACC = 5.25%. The project has the following NPV and IRR: NPV = - \$4,250,000 IRR = 3.01%.

Which of the following statements is true?

- I). The project should be accepted since IRR > WACC
- II). The project should be accepted since NPV > 0.

- A. I only.
- B. II only.
- C. none of them is correct.

**Answer: C (LEAVE A REPLY)**

According to the NPV Rule, all projects with NPV < 0 should be rejected. According to the IRR Rule, all projects with IRR < WACC (or the appropriate discount rate) should be rejected. Therefore, Company B's project should be rejected.

**NEW QUESTION: 405**

The existence of momentum is:

- A. rational.
- B. not true.
- C. contrary to market efficiency.

**Answer: A (LEAVE A REPLY)**

Having stocks with some degree of momentum in their prices may reflect prices adjusting to a shock in growth rates.

**NEW QUESTION: 406**

David's gasoline station offers 4 cents off per gallon if the customer pays in cash and does not use a credit card. Past evidence indicates that 40% of all customers pay in cash. During a one hour period twenty-five customers buy gasoline at this station. What is the probability that no more than twenty pay in cash?

What is the probability that no more than twenty pay in cash?

- A. 0.1
- B. 1.0
- C. 0.9

**Answer: (SHOW ANSWER)**

$P(20)$  is almost zero. Probabilities of higher than 20 are also close to zero. So the probability of not more than 20 is almost 1.

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**NEW QUESTION: 407**

The SEC's Regulation Full Disclosure requires that if security issuers provide non-public information to some market professionals or investors, they must also disclose this information to the public. The requirement helps:

- A. decrease market efficiency.
- B. leave market efficiency unchanged.
- C. increase the market efficiency.

**Answer: C (LEAVE A REPLY)**

Information availability contributes to the degree of efficiency.

**NEW QUESTION: 408**

How many three-digit numbers can you form using the digits 1, 3, 5, 7 and 9 if you are allowed to repeat any of the aforementioned digits any number of times within the number to be formed?

- A. 60
- B. 125
- C. 20

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 409**

For the hypothesis test shown below, the decision should be \_\_\_\_\_.

$$H_0 : \mu \geq 17.0$$

$$H_a : \mu < 17.0 \quad \alpha = 1\%$$

$$\begin{aligned} \sigma &= 2.3 \\ n &= 90 \\ \bar{x} &= 16.8 \end{aligned}$$

$$\text{Critical value} = -2.33$$

$$\text{Test value} = -0.82$$

Decision ???

- A. Reject  $H_a$
- B. Reject  $H_0$

C. Fail to reject  $H_0$

**Answer: C (LEAVE A REPLY)**

Because the sample data,  $\bar{x}$  16.8, has a z-score of -0.82 (the test value) and this z-score is not in the critical region (critical value is -2.33, the cut-off for the bottom 1% of the normal distribution), the Decision is Fail to reject  $H_0$ . That is, we believe this sample data came from a population whose mean

0

is 17 or more. Note- the p-value for an  $\bar{x}$  of 16.8 is 0.2119 or about 21%.

### NEW QUESTION: 410

A recent annual report included the following information:

Note 5: Assets placed in service before January 1, 1997, are depreciated using an accelerated method.

Assets placed in service in 1997 will be depreciated using the straight-line method of depreciation. This change in accounting principle is being made to reflect improvements in the design and flexibility of manufacturing machinery and equipment and improvements in maintenance practices. These improvements have resulted in more uniform productive capacities and maintenance costs over the useful life of an asset. Straight-line is preferable in these circumstances. The change is expected to improve

1997 after-tax results by \$80 to \$100 million. The change was not made for income tax reporting purposes.

Which of the following would generally be true as a result of this change?

A. return on assets would increase

B. return on assets would decrease

C. cash flows would increase

**Answer: A (LEAVE A REPLY)**

Income will increase because less depreciation is being taken out of income. The assets will gradually decrease. Both effects together will increase the return on assets.

### NEW QUESTION: 411

First National Bank finds itself in a situation where it is receiving fixed rate income from its loan portfolio and must pay floating rate expenses to its depositors. Which of the following plain vanilla interest rate swap payments would be of interest to the bank?

I). First National makes fixed rate payments

II). First National makes floating rate payments

III). First National receives floating rate payments

A. II only.

B. III only.

C. I and III.

**Answer: C (LEAVE A REPLY)**

Choice A would match fixed rate payments with the bank's fixed rate income. Choice 'c' would match floating rate income with the bank's floating rate payments.

**NEW QUESTION: 412**

Watson is planning to value Alcan, Inc for the year of 2004. The financial information Watson has assembled for his valuation is as follows (in millions):

EBIT: 500.

\*

Interest expense: 150.

\*

Depreciation: 200.

\*

Income tax rate: 35%.

\*

Investment in working capital: 80.

\*

Investment in fixed capital: 400.

\*

What is the FCFF for the company?

A. \$45 million.

B. \$220 million.

C. -\$285 million.

**Answer: A (LEAVE A REPLY)**

$FCFF = EBIT (1 - \text{Tax rate}) + \text{Dep} - \text{FCInv} - \text{WCInv} = 500 \times (1 - 0.35) + 200 - 80 - 400 = 45.$

**NEW QUESTION: 413**

John Berg, CFA, is the senior vice president in charge of the investment banking division of a large national brokerage firm. He is doing due diligence on a large company whose secondary offering of stock the brokerage firm is about to underwrite. Through his analysis of the audited financial statements of the company in the preliminary prospectus, which has already been distributed, Berg realizes that selling and general administrative expenses in the company's major division have suddenly increased from 1% of sales to 9% of sales. He finds there is no explanation in the prospectus of this material change in the company's operating expenses. Which is Berg's best course of action?

Which is Berg's best course of action?

A. Do not recommend selling the stock because he obtained the information as a result of his position of trust and confidence with the company, and the information is material.

B. Immediately withdraw from the underwriting because otherwise he will be assisting in a violation of governing laws.

C. Insist that management discuss in the prospectus the change in operating expenses (full disclosure of material information).

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 414**

BWT, Inc. shows the following data in its financial statements at the end of the year. Assume all securities were outstanding at the beginning of the year:

6.125% convertible bond, convertible into 33 shares of common stock. Issue price \$1,000, 100

\*

bonds outstanding.

6.25% convertible preferred stock, \$100 par, 3,710 shares outstanding. Convertible into 3.3

\*

shares of common stock, Issue price \$100

8% convertible preferred stock, \$100 par, 5,604 shares outstanding. Convertible into 5 common

\*

shares, Issue price \$80

12,380 warrants are outstanding with an exercise price of \$40. Each warrant is convertible into 1

\*

share of common.

Average market price of common is \$53.00 per share. Common shares outstanding at the

\*

beginning of the year were 45,888.

Net Income for the period was \$200,000, while the tax rate was 40%.

\*

What was the after-tax interest charge?

A. 2021

B. 3675

C. 2450

**Answer: (SHOW ANSWER)**

$(100 \text{ bonds})(\$61.25 \text{ interest per bond}) = \$6125 \text{ interest paid } (\$6125)(1-.4) = \$3675 \text{ interest.}$

**NEW QUESTION: 415**

A lease contains a guaranteed residual value (guaranteed by the lessee). How would this amount be treated in determining the amount the lessee capitalizes?

A. The amount would be deducted.

B. The present value of the amount would be added.

C. The present value of the amount would be deducted.

**Answer: (SHOW ANSWER)**

The present value of guaranteed amounts should be included in the amount capitalized.

**NEW QUESTION: 416**

In the past the FASB has been criticized for having a \_\_\_\_\_ approach to standards.

A. principles-based.

B. rules-based.

C. asset/liability.

**Answer: (SHOW ANSWER)**

It is moving toward an objectives-oriented approach.

**NEW QUESTION: 417**

If the rates for periods 1 through 6 are all 4.25% what is the relationship between the nominal spread and the Z-spread for the 7% 5 year corporate bond and the 6.5% 5 year Treasury bond?

- A. the spreads are equal when the yield curve is flat
- B. the Z-spread is always greater than the nominal spread
- C. the lower the market rates are the greater the spreads

**Answer: A (LEAVE A REPLY)**

**NEW QUESTION: 418**

Item A is recognized for financial reporting but not allowed by tax legislation. Item B is recognized for tax reporting but not for financial reporting. A \_\_\_\_\_ will result from item A and a \_\_\_\_\_ will result from item B

- A. permanent, temporary.
- B. permanent, permanent.
- C. temporary, permanent.

**Answer: B (LEAVE A REPLY)**

The differences between tax and financial reporting of these items will not be reversed so they are both permanent differences.

**NEW QUESTION: 419**

Under the completed-contract method, the billings on construction contract represents:

- A. a measure of the contractor's obligation to perform on the contract.
- B. a measure of the contractor's performance to date.
- C. a measure of the revenue recognized to date.

**Answer: A (LEAVE A REPLY)**

The billings on construction contract account is the amount that has been billed to the purchaser and represents a measure of the contractor's obligation to perform on the contract.

**NEW QUESTION: 420**

An open market purchase of government securities by the Federal Reserve \_\_\_\_\_ banks' reserves and \_\_\_\_\_ the federal funds rate.

- A. increases; lowers
- B. decreases; raises
- C. decreases; lowers

**Answer: A (LEAVE A REPLY)**

When the Fed buys securities, it pays them with newly created reserves held by banks.

**NEW QUESTION: 421**

The capital asset pricing model (CAPM) states that:

- A. The expected risk premium on an investment is proportional to its beta
- B. The expected rate of return on an investment is proportional to its beta
- C. The expected rate of return on an investment depends on the risk-free rate and the market rate of return

**Answer: A (LEAVE A REPLY)**

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**NEW QUESTION: 422**

Which of the following is the best explanation for diseconomies of scale?

- A. coordination problems
- B. indivisibilities
- C. diminishing returns

**Answer: A (LEAVE A REPLY)**

Diseconomies of scale occur when long-run average cost is rising. A good explanation for this is coordination problems resulting from the difficulty of managing large organizations. Answer C (diminishing returns) is a short-run problem that comes from the fact that all inputs cannot be adjusted, and is thus unrelated to diseconomies of scale.

**NEW QUESTION: 423**

For the hypothesis test below, a Type I error could have been made.

$$H_0 : p \leq 0.7$$

$$H_a : p > 0.7 \quad \alpha = 0.1$$

Test value = 1.5

Critical value = 1.28

Decision Reject  $H_0$

Conclusion More than 70% of adults

feel that vitamin supplements  
prevent illness.

A correct explanation of the error is:

**A.** Concluding that 70% or less of adults feel that vitamin supplements can prevent illness when in fact more than 70% feel that vitamin supplements can prevent illness.

**B.** Going along with more than 70% of adults feel that vitamin supplements can prevent illness when in fact 70% or less feel that vitamin supplements can prevent illness.

**C.** Concluding that more than 70% of adults feel that vitamin supplements can prevent illness when in fact

70% or less feel that vitamin supplements can prevent illness.

**Answer: C (LEAVE A REPLY)**

Because the decision was reject  $H_0$ , a Type I error- rejecting  $H_0$  when  $H_0$  is in fact true -

0 0 0

could have been made.

#### **NEW QUESTION: 424**

The price elasticity of demand is a negative number. This means:

**A.** Demand is price elastic.

**B.** The demand curve is downward sloping.

**C.** An increase in income will reduce the quantity demanded.

**Answer: B (LEAVE A REPLY)**

This means that an increase in price leads to a fall in quantity demanded; this means the demand curve is downward sloping.

We cannot tell how responsive the quantity demanded from this, only that price and quantity demanded are inversely related.

**NEW QUESTION: 425**

Which of the following best explains a ratio of "net sales to average net fixed assets" that exceeds the industry average? The firm:

- A. makes less than efficient use of its assets than competing firms.
- B. has a substantial amount of old plant and equipment.
- C. expanded its plant and equipment in the past few years, or uses straight line depreciation.

**Answer: (SHOW ANSWER)**

If a firm has a high fixed asset turnover = net sales/net fixed assets, it can be implied that the firm has not built or purchased many new assets such as plant and equipment. If the firm had recently purchased a new plant and equipment the net fixed asset turnover would be smaller.

**NEW QUESTION: 426**

The following table presents selected common-size income and balance sheet data for Curative Drugs.

Year	1	2	3	4	5	6	7
Current assets	24.5%	25.6%	25.2%	26.3%	26.7%	26.4%	26.9%
Total debt-equity	0.33	0.31	0.35	0.40	0.39	0.41	0.43
Operating margin	19.4%	19.5%	19.3%	19.1%	19.0%	18.7%	18.5%
COGS	63.5%	63.2%	63.5%	63.6%	63.7%	63.5%	63.6%
Return on total capital	8.15%	8.16%	8.09%	8.10%	8.05%	7.95%	7.88%
Return on equity	11.30%	11.35%	11.15%	10.90%	10.75%	10.40%	10.25%

What can be said about Curative's liquidity?

- A. With increasing current assets as proportion of total assets, its liquidity is deteriorating.
- B. Due to lower ROE, its liquidity is declining as it is becoming less profitable.
- C. Based on the information provided, nothing can be concluded about Curative's liquidity.

**Answer: C (LEAVE A REPLY)**

Unless we know the extent of its current liabilities, nothing can be said about Curative's liquidity on the basis of information given.

**NEW QUESTION: 427**

Calculate a 90% confidence interval for a population mean. You have a sample of 21, a sample mean of -25%, and a sample standard deviation of 10%. The sample appears to be approximately normally distributed.

- A. [-28.9%, -21.1%].
- B. [-27.9%, -22.1%].
- C. [-28.1%, -21.9%].

**Answer: (SHOW ANSWER)**

Based on the data given, we should use the t-distribution. The critical value will be based at 0.5

$t_{(0.05, 20)}$ , and is 1.725. Our confidence interval will then be  $[-25\% - 1.725*(10\%)/(21), -25\% +$

0.5

$1.725 \times (10\%) / (21) = [-28.9\%, -21.1\%]$ .

**NEW QUESTION: 428**

Janet Ver is a portfolio manager managing large institutional clients. Janet does not act on a sale recommendation from the firm's equity division, until she has sold her personal holding in the stock. Once she has sold her personal holding in the stock then she will sell the stock out of her institutional clients' portfolios. In terms of CFA Institute's Standards of Professional Conduct per Standard VI (B): Priority of

Transactions, has Janet violated this standard?

- A. Yes, since her early sale is not an ethical practice.
- B. Yes, since her early sale could result in losses to her clients.
- C. No, since she is allowed to sell her stock before her clients.

**Answer: A (LEAVE A REPLY)**

**NEW QUESTION: 429**

Inventory at the end of the current period was erroneously understated. Which of the following is true as a result of the understatement not being corrected?

- A. The cost of goods sold for the current year is understated.
- B. Net income at the end of the following year will be overstated.
- C. Net income for the current year is overstated.

**Answer: B (LEAVE A REPLY)**

Net income is understated, and capital (retained earnings) is understated. For the following year, the cost of goods sold will be understated and net income overstated.

**NEW QUESTION: 430**

A natural monopoly occurs when

- A. the entry of a second firm would make both firms more profitable.
- B. the exit of the first firm would make the second firm unprofitable.
- C. the entry of a second firm would make both firms unprofitable.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 431**

The record of all transactions with foreign nations that involve the exchange of merchandise goods and services, net income earned abroad, and unilateral gifts is called the

- A. capital account.
- B. current account.
- C. balance of trade.

**Answer: B (LEAVE A REPLY)**

The current account is more encompassing than either the balance of merchandise trade or the balance on goods and services.

**NEW QUESTION: 432**

The market portfolio of common stocks earned 20.4% last year. Treasury bills earned 5.3% on average last year. The average inflation rate was 2.5%. What was the real return on equities?

- A. 12.6%.
- B. 15.1%.
- C. 17.9%.

**Answer: C (LEAVE A REPLY)**

$$20.4 - 2.5 = 17.9.$$

**NEW QUESTION: 433**

A mutual fund with an offering price of \$23.50 and a 6% front-end load has a net asset value of:

- A. \$22.09
- B. \$22.17 C \$24.91
- C. \$24.91

**Answer: A (LEAVE A REPLY)**

$$\text{NAV} = \text{Offering price} \times (1 - \text{Load}) = \$23.50 \times (1 - 0.06) = \$22.09$$

**NEW QUESTION: 434**

A 5.25% coupon Treasury security with one year left to maturity is selling for 101.75, and a two-year

5.45% coupon Treasury security is selling at a discount of 0.40% from par. Assume annual discounting.

The spot rate for the second year is

- A. 5.67%
- B. 5.45%
- C. 5.73%

**Answer: C (LEAVE A REPLY)**

The first year spot rate is computed first from the 1-year bond.  $FV = 105.25$ ;  $N = 1$ ;  $PV = -101.75$ ;  $\text{CPT I/Y} = 3.44\%$

It is then used in the valuation of the 2-year bond, without the forward rate.  $99.60 = 5.45/(1.0344) + 105.45/(1 + s_2)^2$   $s_2 = [105.45 / (99.60 - 5.45/1.0344)]^{1/2} - 1 = 0.0573$ , or 5.73%

**NEW QUESTION: 435**

A stock dividend would most likely result in a \_\_\_\_\_ debt / equity ratio and a \_\_\_\_\_ current ratio.

- A. unchanged, lower.
- B. unchanged, unchanged.
- C. lower, unchanged.

**Answer: B (LEAVE A REPLY)**

A stock dividend would leave both of these ratios unchanged.

**NEW QUESTION: 436**

Comparative advantage means

- A.** countries that produce goods in which they have the lower opportunity cost relative to their trading partner, will gain from international trade.
- B.** countries that produce goods in which they have the lowest absolute cost, will gain from international trade.
- C.** countries that produce goods for which they have a large domestic market, will gain from international trade.

**Answer: A (LEAVE A REPLY)**

In order to gain from mutual trade, countries should produce goods in which they have relative advantage in terms of opportunity cost. They need not be the lowest absolute cost producers. It is all about the best or most efficient use of a country's resources.

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**NEW QUESTION: 437**

According to CFA Institute's Standards of Professional Conduct, what is the responsibility of members in terms of Standard I.A.(Knowledge of the Law)?

- A.** Members are not responsible for violations they knowingly participate in or assist if they did not have all the correct facts at the time.
- B.** Members are responsible for violations they knowingly participate in or assist.
- C.** Members are only responsible for gross negligence but not other violations.

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 438**

Benny Len is an analyst at a large Brokerage firm. Benny has recently visited the Head of operations at company HTY with the view to writing a report on them. The operations director presents Benny with three production scenarios for the coming year, the optimistic, pessimistic and realistic scenarios. When

Benny writes his report he only uses the optimistic production scenario but does not report this as the optimistic scenario, rather he reports these numbers as the numbers that are likely to be achieved. Based on this scenario Benny recommends that the entire firm's clients purchase HTY stock. Has Benny violated the Code and Standards?

- A. Yes, Benny should have reported all three production scenarios when writing his report.
- B. No, Benny truly believed that the optimistic production numbers would be achieved.
- C. Yes, Benny should have had his report checked by the head of Equity research before releasing it to the firm's clients.

**Answer: A (LEAVE A REPLY)**

Benny should have reported all three production scenarios when writing his report even if he believed that the optimistic scenarios was the correct one, as this will reflect all the possible outcomes of the business for the coming year. By only reporting the most optimistic scenario Benny is misleading the Firm's clients.

**NEW QUESTION: 439**

A firm which needs to raise cash and also reduce the level of its accounts receivable would most likely benefit from:

- A. obtaining an unsecured short-term loan or applying for a committed line of credit.
- B. factoring its receivables.
- C. securing any short-term credit with a blanket inventory lien.

**Answer: (SHOW ANSWER)**

A: This will not reduce the level of accounts receivable. C: This will not reduce the level of accounts receivable.

**NEW QUESTION: 440**

Which of the following is NOT a true statement about rent control?

- A. In the long run, as demand increases, apartment shortages are likely to become more severe, and the quality of rent-controlled apartments is likely to decline.
- B. Consumers will have to spend more time searching for apartments if there are rent controls.
- C. The only people who benefit from rent controls are the poor.

**Answer: (SHOW ANSWER)**

Low apartment prices give landlords little incentive to maintain quality, and likewise, apartment will become even scarcer as demand increases. Any time there is a shortage, consumers will "pay" a higher price in terms of time searching. While some of the poor are likely to benefit from rent control, anyone who gets such an apartment gains, and some of those people may not be poor.

Additionally, if there is "key money" or other bribery, other parties such as apartment owners may gain.

**NEW QUESTION: 441**

To draw a downtrend line, a technician draws a line connecting the \_\_\_\_\_ of the price chart.

- A. lows.
- B. highs.
- C. average of daily lows and highs.

**Answer: B ([LEAVE A REPLY](#))**

As the security moves down in price, each subsequent new high must be lower than the prior high.

**NEW QUESTION: 442**

A defined benefit pension plan is associated with:

- A. A company committed to specific levels of contributions to the pension plan of the employee.
- B. A company committed to no cash payments for pensions until the employee actually retires.
- C. A company committed to specific retiree benefit levels at retirement.

**Answer: C ([LEAVE A REPLY](#))**

**NEW QUESTION: 443**

Hilary Waters, a CFA charterholder, is an investment analyst who has accumulated several pieces of nonpublic information through her contacts with drug firms. Although none of the information is material,

Waters correctly concluded by analyzing the nonpublic information that the earnings of one of the drug firms would be unexpectedly high in the coming year. Under current US law, Waters:

- A. can use the information to make investment recommendations and decisions.
- B. cannot legally invest or make investment recommendations based on this information.
- C. may use the information, but only after approval from a compliance officer or supervisory analyst attesting to its non-materiality.

**Answer: A ([LEAVE A REPLY](#))**

**NEW QUESTION: 444**

Deductible temporary differences result in a deferred tax \_\_\_\_\_ when the carrying amount of a liability is \_\_\_\_\_ than its tax base.

- A. asset, more.
- B. asset, less.
- C. liability, more.

**Answer: A ([LEAVE A REPLY](#))**

Or when the carrying amount of an asset is less than its tax base.

**NEW QUESTION: 445**

Regarding the reversals of impairments of long-lived assets,

- A. The US GAAP allows the loss to be reversed if the asset is categorized as held for use.
- B. The US GAAP disallows the loss to be reversed if the asset is categorized as held for sale.
- C. The IFRS allows the loss to be reversed regardless of whether the asset is held for use or sale.

**Answer: C ([LEAVE A REPLY](#))**

The US GAAP disallows the loss to be reversed if the asset is categorized as held for use, and allows if the asset is categorized as held for sale.

**NEW QUESTION: 446**

If an industry experience patterns that do not correlate well against the general economy but trend against other economic variables such as stock prices, it is categorized as

- A. Defensive.
- B. Cyclical.
- C. Growth.

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 447**

The speed at which a firm is turning over its accounts receivable, inventory and longer term assets is measured by?

- I). Liquidity ratios.
- II). Debt utilization ratios.
- III). Asset utilization ratios.

- A. II and III.
- B. I and III.
- C. III only.

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 448**

Which statement is FALSE?

- A. The welfare loss suffered by the importing country is generally greater with a quota than with an import tariff.
- B. A VER has the same impact on the importing country as an import quota.
- C. The welfare loss caused by an export subsidy is greater for a small country than for a large country.

**Answer: C (LEAVE A REPLY)**

A is true - The tax revenue that would be raised by the equivalent tariff is instead captured by foreign producers as quota rents.

B is also true - In both cases foreign producers capture all of the quota rents.

C is false - In the large country case, the world price declines as the large country increases exports. The decline in world prices implies that a part of the subsidy is transferred from large country to the foreign country.

**NEW QUESTION: 449**

If the standard deviation of a population is 100 and the sample size taken from that population is 64, the standard error of the sample mean is closest to:

- A. 0.64.
- B. 1.56.
- C. 12.50.

**Answer: C (LEAVE A REPLY)**

1/2

Explanation: Standard error of sample mean =  $100/64 = 12.50$ .

**NEW QUESTION: 450**

In 2008 an American taught spoken English in China and he made \$30,000 that year. When he came back to the US he brought with him \$25,000 home and then bought a new computer for \$2,000 and an used car for \$12,000. He then deposited the rest of the money in his bank account. Through the series of transactions the amount counted towards US GDP should be:

- A. 0, since he did not make the money in the US.
- B. 2,000.
- C. 14,000.

**Answer: B (LEAVE A REPLY)**

The income was not generated within the borders of the United States. However, the purchase of a new computer counted towards US GDP but the purchase of the used car did not.

**NEW QUESTION: 451**

Suppose the economy of Carnivalland can produce either 6 corn dogs or 3 toy animals per day while the economy of Fairland can produce either 8 corn dogs or 16 toy animals per year. Then \_\_\_\_\_ has a comparative advantage in the production of corn dogs while \_\_\_\_\_ has a comparative advantage in the production of toy animals.

- A. Fairland, Carnivalland
- B. Fairland, Fairland
- C. Carnivalland, Fairland

**Answer: C (LEAVE A REPLY)**

In Carnivalland, the opportunity cost of 1 corn dog is 1/2 of a toy animal, while in Fairland, the opportunity cost of 1 corn dog is 2 toy animals. Thus, since Carnivalland has to give up fewer toy animals per corn dog, they have a comparative advantage

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**NEW QUESTION: 452**

The lifetime of a 2-volt non-rechargeable battery in constant use has a normal distribution with a mean of 516 hours and a standard deviation of 20 hours. Ninety percent of all batteries have a lifetime less than

- A. 517.28 hours.
- B. 536.00 hours.
- C. 541.60 hours.

**Answer: C (LEAVE A REPLY)**

The z-value corresponding to the proportion 0.9000 is 1.28. We need to use the formula  $x = u + z \sigma$ , where  $z = 1.28$  to get the correct answer, or  $x = 516 + 1.28 \times 20 = 541.6$ .

#### **NEW QUESTION: 453**

An investor buys 100 baskets of the Standard and Poor's 500 stock index for \$1,400 each. She insures the portfolio by buying put options. What is the effect of the put options?

- A. The upside risk of the insured portfolio is truncated and the downside risk is reduced relative to the uninsured portfolio.
- B. The insured portfolio does better than the uninsured portfolio whenever the market declines.
- C. The downside risk of the insured portfolio is truncated and the upside return of the insured portfolio is lower relative to the uninsured portfolio.

**Answer: C (LEAVE A REPLY)**

#### **NEW QUESTION: 454**

Beginning accounts receivable \$ 50,000 Ending accounts receivable \$ 30,000 Net sales \$600,000

Cost of goods sold \$375,000 Operating expenses \$ 80,000

What was the amount of cash received from customers?

- A. \$620,000
- B. \$580,000
- C. \$630,000

**Answer: (SHOW ANSWER)**

Cash received from customers = Net sales + Decrease in Accounts Receivable or - Increase in Accounts Receivable.  $\$600,000 + (\$50,000 - \$30,000) = \$620,000$ .

#### **NEW QUESTION: 455**

\_\_\_\_\_ is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, which may involve either market measures or present value measures.

- A. Settlement value.
- B. Fair value.
- C. Current cost.

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 456**

Which of the following is an example of a conservative accounting policy?

- A. Using FIFO inventory method when prices are rising.
- B. Accruing reserves for potential contingency losses.
- C. Using lower estimates for estimating bad-debt expenses.

**Answer: B (LEAVE A REPLY)**

Accruing reserves for potential losses is a conservative policy.

**NEW QUESTION: 457**

The market price of stock Y is now \$30. An order specifies the stock must be sold once the price drops to \$25 or below. This order is likely to be a:

- A. market order.
- B. limit order.
- C. stop order.

**Answer: C (LEAVE A REPLY)**

This is an example of stop-loss order which specifies that the stock should be sold if its price drops to a level.

**NEW QUESTION: 458**

Which of the following is not included in investing activities?

- A. the sale of securities that are cash equivalents
- B. loaning money to another party, or the sale of corporate bonds that were held long term
- C. the purchase of common stock to be held long term

**Answer: A (LEAVE A REPLY)**

The sale of securities that are cash equivalents does not go in any of the three categories on the statement of cash flows. The sale of securities that are cash equivalents does not go in any of the three categories on the statement of cash flows. The sale of securities that are cash equivalents is simply considered a change in the form of cash the company holds.

**NEW QUESTION: 459**

The relationship between the price of a callable bond, the price of an option-free bond and the price of the embedded call option is

- A. price of callable bond = price of option-free bond + price of embedded call option.
- B. price of callable bond - price of option-free bond = price of embedded call option.
- C. price of callable bond = price of option-free bond - price of embedded call option.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 460**

Which of the following is correct?

- A. Accounting breakeven quantity will increase with increase in fixed costs.

**B.** If the discount rate increases, the quantity required to be sold for accounting break even increases.

**C.** Accepting a project that has accounting breakeven will leave the value of a firm unchanged.

**Answer: A (LEAVE A REPLY)**

Accounting breakeven quantity =  $(FC + \text{Depre}) / (P - VC)$  Accounting breakeven implies the project will have negative NPV and hence decrease value of the firm.

#### **NEW QUESTION: 461**

Which of the following is true of a monopoly?

**A.** A monopoly always charges the highest possible price.

**B.** The monopoly's demand curve and the market demand curve are one and the same.

**C.** The main concern of a monopoly is not profit maximization but preservation of its monopoly status.

**Answer: B (LEAVE A REPLY)**

There is no entry or exit in purely monopolistic markets.

#### **NEW QUESTION: 462**

Which of the following statements concerning the calculation and reporting of fully-diluted earnings per share is correct?

**A.** If some individual common stock equivalents are dilutive and others are antidilutive, their net effect should be included in the EPS calculation only if it is dilutive.

**B.** Firms are required to report fully-diluted EPS only if it differs from simple EPS by more than 5%.

**C.** If any individual common stock equivalent is antidilutive, it should be excluded from the EPS calculation.

**Answer: C (LEAVE A REPLY)**

#### **NEW QUESTION: 463**

In the case of an inferior good with a decrease in own price, which of the following statements is most likely true?

**A.** Both the substitution and income effects lead to an increase in the quantity purchased.

**B.** The substitution effect leads to an increase in the quantity purchased, while the income effect leads to a decrease.

**C.** The income effect leads to an increase in the quantity purchased, while the substitution effect leads to a decrease.

**Answer: (SHOW ANSWER)**

The substitution effect overwhelms the income effect, leading to an overall effect of increased quantity purchased.

#### **NEW QUESTION: 464**

A share of stock is expected to pay a dividend of \$1.00 one year from now, with growth at 5% thereafter. In the context of a dividend discount model, the stock is correctly priced today at \$10. According to the single stage, constant growth dividend discount model, if the required return is 15%, the value of the stock two years from now should be:

- A. \$11.03
- B. \$13.23
- C. \$12.10

**Answer: A (LEAVE A REPLY)**

#### **NEW QUESTION: 465**

Net income is

- A. sales revenue - COGS.
- B. sales revenue - COGS - operating expenses.
- C. income before taxes - income taxes.

**Answer: C (LEAVE A REPLY)**

sales revenue - COGS is gross profit. gross profit - operating expenses is income from operations. net income is after-tax income available to all shareholders.

#### **NEW QUESTION: 466**

An appreciation of the US dollar would \_\_\_\_ (increase, decrease, not affect) aggregate demand, and an increase in the real interest rate would \_\_\_\_ (increase, decrease, not affect) aggregate demand.

- A. increase, decrease.
- B. decrease, increase.
- C. decrease, decrease.

**Answer: C (LEAVE A REPLY)**

An appreciation of the dollar would make U.S. goods and services more expensive to foreigners and would reduce exports. An increase in the real interest rate would depress domestic investment spending and spending on consumer durables such as automobiles and refrigerators. Spending on U.S. exports, investment spending and consumer spending are components of aggregate demand.

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**NEW QUESTION: 467**

Which of the following components of risk is most relevant in terms of determining required return?

- A. Total risk
- B. Unsystematic risk
- C. Systematic risk

**Answer: C (LEAVE A REPLY)**

Systematic risk: risk inherent in an investment related to movements in the market that cannot be diversified away.

**NEW QUESTION: 468**

Gold Coast Apartments, a 160-unit complex, has 100 one-bedroom and 60 two-bedroom apartments, which rent for \$700 and \$900 per month, respectively. The complex earns \$22,000 per year from its laundry facilities. The following data is available: Vacancy and collection losses are 6% of effective gross potential income, Annual property insurance and taxes amount to \$154,000 Average annual costs of repairs, utilities, garbage and management are \$209,000 The property was purchased for \$5.10 million. The annual mortgage payment for the property (20-year, 9 % mortgage on 80% of the property value) is \$440,526. What is Gold Coast's net operating income?

- A. \$615,871
- B. \$689,200
- C. \$1,056,400

**Answer: (SHOW ANSWER)**

Mortgage payments and interest expenses depend upon the financing choice of the investor, not operations. Therefore, these costs are not considered in the net operating income (NOI) computations.

Net operating income can be calculated as follows: Gross Rents 1,488,000 Other Income 22,000  
Gross potential income 1,510,000 Less Vacancy losses at 6% -90,600 Effective gross income 1,419,400  
Operating expenses Property insurance and taxes -154,000 Management and other expenses -209,000  
Net operating income 1,056,400

**NEW QUESTION: 469**

An insurance agent has appointments with four prospective clients tomorrow. From past experience the agent knows that the probability of making a sale on any appointment is 1 out of 5. Using the rules of probability, what is the likelihood that the agent will sell a policy to 3 of the 4 prospective clients?

- A. 0.410
- B. 0.250

C. 0.026

**Answer: (SHOW ANSWER)**

This is a binomial probability. The probability of getting  $r$  successes out of  $n$  trials where the probability of success each trial is  $p$  and probability of failure each trial is  $q$  (where  $q = 1-p$ ) is given by:

$$\binom{n}{r} p^r q^{n-r}$$

Here  $n = 4$ ,  $r = 3$ ,  $p = 0.20$  and  $q = 0.80$ . Therefore we have  $\binom{4}{3} (0.2)^3 (0.8)^1 = 0.026$ .

### NEW QUESTION: 470

You are comparing two companies by looking at financial ratios they publish in their annual reports.

You know that

- I). you must be careful because not all financial statement ratios are computed the same way.
- II). the financial ratios of a large firm and a medium size firm cannot be compared.
- III). these financial ratios will capture the relevant differences between the two firms, leaving you with no need to look at the rest of the reports.

- A. I only
- B. II only
- C. I and III only

**Answer: (SHOW ANSWER)**

### NEW QUESTION: 471

Suppose Georgia was the only state that produced peaches. If peaches sold for \$6 a pound in Georgia and it costs 50 cents to transport a pound of peaches to Virginia, we would expect the price of a pound of peaches in Virginia to be

- A. more than \$6.50 because Georgia farmers would have a peach monopoly.
- B. \$6.00
- C. \$6.50

**Answer: (SHOW ANSWER)**

Price reflects the value of the good at production plus transportation costs from the point of production to the point of sale. Therefore, the price of peaches would be  $\$6 + \$0.50 = \$6.50/\text{lb.}$  in Virginia.

### NEW QUESTION: 472

A reduction in the valuation allowance will:

- I). reduce reported income taxes.
- II). reduce actual income taxes.
- III). reduce accounting income.
- IV). increase accounting income.

- A. I and III.

B. I and IV.

C. II and IV.

**Answer: B (LEAVE A REPLY)**

Actual income taxes are never affected by a change in valuation allowance established for financial reporting.

**NEW QUESTION: 473**

County Farm Insurance Co. manages a portfolio of corporate bonds for the purpose of producing cash flows sufficient to meet liabilities originating from its sale of life insurance policies. Credit rating and the size and timing of coupon and principal payment have been the criteria used to select bonds for the portfolio. An unexpected decrease in the level of market yields may:

I). increase the market value of bonds in the portfolio

II). reduce income realized from reinvestment of coupons

III). cause callable bonds to be called by issuers

A. I and II.

B. I and III.

C. I, II and III.

**Answer: C (LEAVE A REPLY)**

This portfolio of bonds is exposed to interest rate risk, reinvestment risk and risk exposure from the call provisions of some of the bonds.

**NEW QUESTION: 474**

Diseconomies of scale are associated with:

A. an upward-sloping long-run average total cost curve.

B. an upward-sloping short-run average total cost curve.

C. a downward-sloping long-run average total cost curve.

**Answer: A (LEAVE A REPLY)**

Diseconomies of scale occur when an increase in all inputs results in an increase in long-run average total cost.

**NEW QUESTION: 475**

If a researcher testing the null hypothesis  $H_0: \mu = 57$  vs.  $H_a: \mu < 53$  or  $\mu > 57$ , found that is equal to 56

0 a

when in reality is 59, identify the type of error that has been made.

A. Type I

B. Type II

C. None of the choices are correct.

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 476**

A parent wants to save 50,000 for her daughter's education. She needs this amount in six years. How much does she need to begin saving a year from now, every year, if the savings can be invested at 5%?

- A. 7,351
- B. 7,001
- C. 7,937

**Answer: A (LEAVE A REPLY)**

Using a financial calculator:  $FV = 50,000$ ;  $N = 6$ ;  $I/Y = 5$ ;  $CPT PMT = 7,351$

#### **NEW QUESTION: 477**

The short run supply curve for a firm is

- A. the rising part of its average variable cost curve.
- B. the marginal cost curve that lies above the average variable cost curve.
- C. the marginal cost curve that lies above the average total cost curve.

**Answer: B (LEAVE A REPLY)**

In the short run a firm will not operate if the price were below its average variable cost as it would be losing money. Thus, its short run supply curve will be its marginal cost curve that lies above the average variable cost curve.

#### **NEW QUESTION: 478**

Inventories valued using \_\_\_\_\_ are least likely to incur inventory write-downs.

- A. FIFO.
- B. LIFO.
- C. Weighted average cost.

**Answer: B (LEAVE A REPLY)**

The inventory carrying amounts under the LIFO method are already conservatively presented at the oldest and lowest costs (given increasing inventory costs).

#### **NEW QUESTION: 479**

Taking financial reports to evaluate the past, current and prospective performance and financial position of a company for the purpose of making investment, create and other economic decisions best describes the role of

- A. Financial reporting.
- B. Financial statement analysis.
- C. Financial statements.

**Answer: B (LEAVE A REPLY)**

The role of financial reporting is to provide information about the performance and financial position of companies so that users can make economic decisions.

#### **NEW QUESTION: 480**

If a security just experienced a triple top pattern, its price is then expected to:

- A. go up.
- B. go down.
- C. either go up or go down.

**Answer: B (LEAVE A REPLY)**

Technicians use the triple top to predict a change from an uptrend to a downtrend in security prices.

**NEW QUESTION: 481**

Which of the following correctly defines the operating cycle?

- I). Cash conversion cycle - Accounts payable period.
- II). Inventory period + Accounts receivable period.
- III). Cash conversion cycle + Accounts payable period.
- IV). Inventory period - Accounts receivable period - Accounts payable period.

- A. I and II.
- B. II and III.
- C. II, III, and IV.

**Answer: (SHOW ANSWER)**

cash conversion cycle = Accounts receivable period + Inventory period - Accounts payable period

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**NEW QUESTION: 482**

Which of the following is the most valid argument for including venture capital investments in a traditional multi-asset class portfolio?

- A. Venture capital investments tend to offer high risk-adjusted returns.
- B. Venture capital investments tend to have low correlations with other asset classes.
- C. Venture capital investments are managed by professionals who have successful track records in managing businesses.

**Answer: B (LEAVE A REPLY)**

Venture capital is a separate asset class, and exhibits low correlations with other traditional asset classes. Therefore, venture capital offers potential for further diversification for a traditional assets portfolio. Venture capital investments are highly risky- more than 10% of them lose 100% of their values.

Overall, they offer high returns in exchange for assuming high risk but not necessarily high risk-adjusted returns. The fact that a significant percentage of venture capital investments fail indicates that management's record of success is not a valid argument for venture capital investing.

**NEW QUESTION: 483**

The impact of sales of receivables is:

- I). Operating cash flow is reduced because the proceeds are reported as financing cash flows.
- II). A portion of operating cash flow in the current period is borrowed from the future.
- III). In the future, if a company sought to reduce the amount of receivables sold or securitized, operating cash flow would decline.

- A. II only.
- B. I and II.
- C. II and III.

**Answer: (SHOW ANSWER)**

The proceeds is reported as operating cash flow.

**NEW QUESTION: 484**

When a price ceiling causes an excess demand which leads to an illegal market in which the price exceeds the legally imposed price ceiling the illegal market is called a price ceiling, the illegal market is called a

- A. free market.
- B. regulated market.
- C. black market.

**Answer: C (LEAVE A REPLY)**

A black market is an illegal market that operates alongside a legal market in which a price ceiling or other restriction has been imposed

**NEW QUESTION: 485**

A bond is trading at the ex-coupon transaction price which is 99-7/32 for a semi-annual pay, 9-5/8% coupon bond. 4.0 months have elapsed since the last coupon. What is the accrued interest for the buyer for \$2,750,000 par value of this bond?

- A. \$88,229
- B. \$110,286
- C. \$0

**Answer: (SHOW ANSWER)**

The designation "ex-coupon" indicates that the bond buyer does not receive the next coupon payment. The bond seller is entitled to the entire coupon payment. Consequently, there is no accrued interest for the buyer for this transaction.

**NEW QUESTION: 486**

Which of the following will increase the aggregate demand?

I). Higher prices in stock market.

II). Higher prices in real estate market.

III). Higher real wealth.

A. III only.

B. I, II, III.

C. None of them. They will increase the quantity of aggregate demand but not the aggregate demand itself.

**Answer: (SHOW ANSWER)**

Increase in stock and housing prices increases real wealth of households, and thus increases the aggregate demand.

### NEW QUESTION: 487

If you can invest for 2 years at 5% today, or invest for 1.5 years at 4.6%, what would you have to earn on your reinvestment to be just as well off?

A. 3.102%

B. 5.40%

C. 6.204%

**Answer: C (LEAVE A REPLY)**

$(1+.05/2)^4 / (1+.046/2)^3 - 1 = .03102$  Annual =  $3.102(2) = 6.204$

### NEW QUESTION: 488

The probability that events A and B do not occur simultaneously equals 0.77. The probability of neither A nor B occurring equals 0.38. If P(A) equals 0.26, the probability of B occurring equals

\_\_\_\_\_.

A. 0.43

B. 0.59

C. 0.62

**Answer: B (LEAVE A REPLY)**

The probability that events A and B do not occur simultaneously equals one minus the probability that events A and B occur

The probability that events A and B do not occur simultaneously equals one minus the probability that events A and B occur simultaneously. Thus,  $P(A \text{ and } B) = 1 - 0.77 = 0.23$ .

The probability of neither A nor B occurring equals one minus the probability of either A or B occurring.

Thus,  $P(A \text{ or } B) = 1 - 0.38 = 0.62$ .

Now,  $P(A \text{ or } B) = P(A) + P(B) - P(A \text{ and } B)$ . Therefore,  $P(B) = P(A \text{ or } B) - P(A) + P(A \text{ and } B) = 0.62 - 0.26 + 0.23 = 0.59$ .

### NEW QUESTION: 489

What is a company's payables payment period if COGS are \$200,000 and the average balance of accounts payable (AP) is \$10,000?

- A. 18.25 days.
- B. 10.75 days.
- C. 11.33 days.

**Answer: (SHOW ANSWER)**

Payables turnover ratio =  $\$200,000/\$10,000 = 20$  Payables payment period =  $365/20 = 18.25$  days

#### **NEW QUESTION: 490**

Propelled by an older population and a high saving rate, Japanese citizens make substantial real and financial investments abroad. If Japanese investment abroad exceeds foreign investment in Japan (a financial account deficit), and assume the capital account balance is zero, the Japanese

- A. must run an offsetting surplus on their current account transactions.
- B. yen must appreciate on the exchange rate market.
- C. yen must depreciate on the exchange rate market.

**Answer: A (LEAVE A REPLY)**

According to the balance of payments which requires that the capital/financial account exactly offsets the current account, the Japanese must have a current account surplus.

#### **NEW QUESTION: 491**

You invest \$100 in a risky asset with an expected rate of return of 12% and a standard deviation of

1 5% and a T-bill with a rate of return of 5%. A portfolio that has an expected outcome of \$115 is formed by:

- A. investing \$80 in the risky asset and \$20 in the risk-free asset.
- B. borrowing \$43 at the risk-free rate and investing the total amount (\$143) in the risky asset.
- C. investing \$43 in the risky asset and \$57 in the riskless asset.

**Answer: (SHOW ANSWER)**

$143\% \times 12\% - 43\% \times 5\% = 15\%$ .

#### **NEW QUESTION: 492**

If a constant were to be added to a set of scores, the standard deviation would:

- A. increase by the magnitude of that constant.
- B. increase by the square root of that constant.
- C. remain the same.

**Answer: C (LEAVE A REPLY)**

#### **NEW QUESTION: 493**

The passage of time usually

- A. causes the price elasticity of demand for a good to increase.

B. causes the price elasticity of demand for a good to decrease.

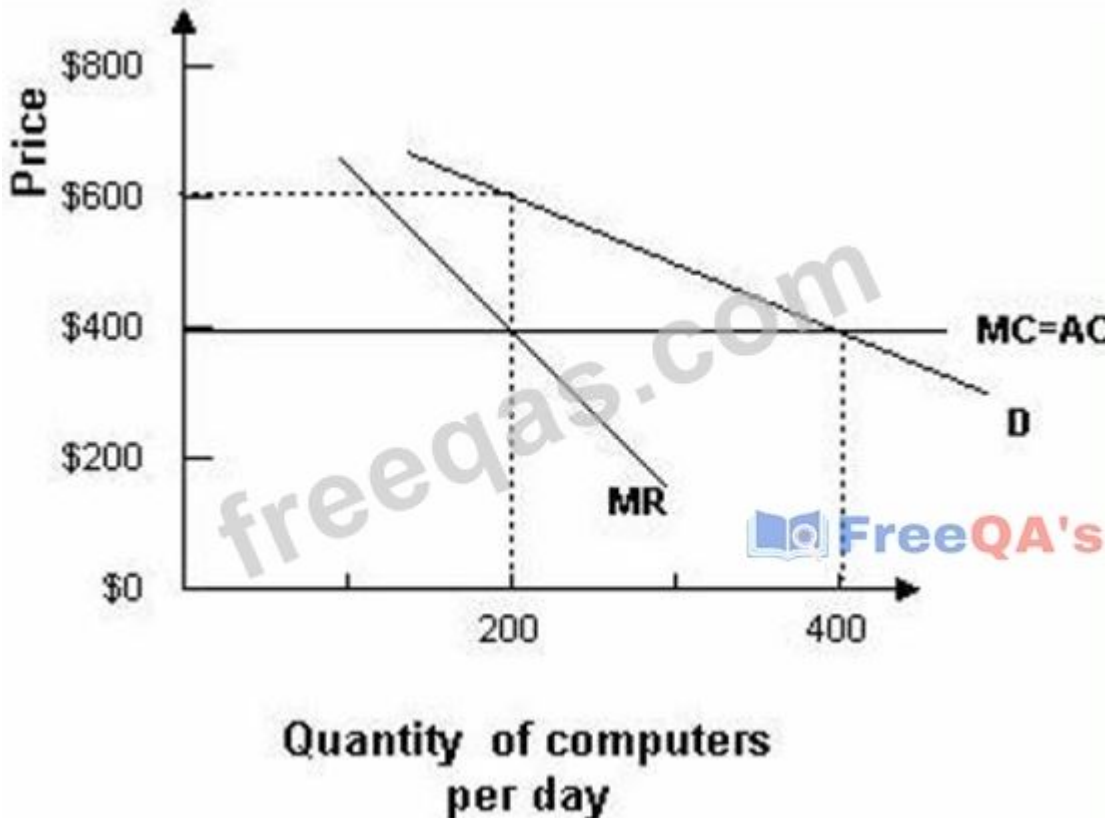
C. has a completely unpredictable effect on the price elasticity of demand for a good.

**Answer:** ([SHOW ANSWER](#))

Price elasticity of demand usually increases with time because it often takes time to make the adjustments needed to change spending plans. Consider the time it takes to make all the adjustments you would want to make if the price of gasoline tripled!

**NEW QUESTION: 494**

Refer to the graph below. Assuming that the monopoly maximizes profit it will earn profits of:



A. \$8,000 per day.

B. \$40,000 per day.

C. \$160,000 per day.

**Answer:** B ([LEAVE A REPLY](#))

Total profits equal per unit profits (\$200) times output (200), or \$40,000.

**NEW QUESTION: 495**

Which of the following is NOT evidence of the fact that investors are risk-averse?

I). Investors purchase various types of insurance.

II). The difference in the promised yield for different grades of bonds that supposedly have different grades of credit risk.

A. Both are evidences of risk aversion.

B. I only.

C. II only.

Answer: A ([LEAVE A REPLY](#))

**NEW QUESTION: 496**

The price of a 15-year, semi-annual pay, 8% coupon bond increases by 9.53% if the bond's yield to maturity decreases by 100 basis points from 7% to 6%. The percentage change in the bond's price caused by a decrease in yield to maturity from 10% to 9% is:

- A. 7.89%
- B. 8.21%
- C. 8.54%

Answer: C ([LEAVE A REPLY](#))

To yield 10%, this bond's price is \$846.28. To yield 9%, this bond's price is \$918.55.

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**NEW QUESTION: 497**

An analyst has put together the following information from an annual report:

Item	Amount
Net income	13,008
Decrease in accounts receivable	2,675
Increase in inventories	1,897
Decrease in other current assets	534
Increase in accounts payable	3,213
Decrease in other current liabilities	1,546
Increase in notes payable	1,056
Decrease in long term debt	3,042
Increase in stockholders' capital & surplus account	4,002
Preferred dividends paid	795
Depreciation	2,964

What is the cash flow from financing?

- A. 165
- B. -1,743
- C. 1,221

Answer: ([SHOW ANSWER](#))

Cash flow from financing =  $1,056 - 3,042 + 4,002 - 795 = 1,221$ . Notes payable are a cash flow from financing even though they are listed under current liabilities.

**NEW QUESTION: 498**

On May 15, your firm receives 20 cases of designer pens. On June 30, your firm pays \$3,250 for the pens. On July 15, the pens are sold on credit for \$10,500. On September 10, your firm collects the receivable in full. If each transaction occurs at the end of the business day, how many days are in the accounts payable period?

- A. 46 days.
- B. 57 days.
- C. 61 days.

**Answer: (SHOW ANSWER)**

B: the number of days in the accounts receivable period. C: the number of days in the inventory period. D: the number of days in the cash cycle. 118 days: the number of days in the operating cycle.

**NEW QUESTION: 499**

Changes in fiscal policy refer to changes in:

- I). Government expenditures.
- II). Tax policy.
- III). Money supply.
- IV). Fed interest rates.
- V. Borrowing money by issuing T-securities.

- A. I and II.
- B. I, II and V.
- C. III, IV and V.

**Answer: B (LEAVE A REPLY)**

Changes in fiscal policy refer to deliberate changes in government expenditures, tax policy and government borrowing to affect the size of the budget deficit or surplus.

**NEW QUESTION: 500**

Social security payments have been adjusted for inflation annually since the late 1970s yet it is sometimes argued that the cost of living for retirees on social security rises less than the cost of living adjustment used by the government. If this is the case, retirees:

- A. are hurt by inflation even with the government's inflation adjustment.
- B. benefit from using the government's cost of living adjustment rather than a more accurate cost of living adjustment.
- C. would be better off if the government cost of living adjustment more accurately reflected the true cost of living for retirees.

**Answer: (SHOW ANSWER)**

If social security payments more than keep pace with the true cost of living, retirees will be better off.

**NEW QUESTION: 501**

A firm using the LIFO inventory valuation method in an inflationary environment will have \_\_\_\_\_ profit margins and \_\_\_\_\_ inventory turnover compared to a firm using FIFO.

- A. Lower, lower.
- B. Higher, lower.
- C. Lower, higher.

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 502**

Which of the following items would have a tax consequence for financial accounting purposes?

- I). Fines Paid for Law Violations
- II). Product Warranty Liabilities
- III). Life Insurance Proceeds Received (co. is beneficiary)

- A. II only.
- B. II and III.
- C. I and II.

**Answer: A (LEAVE A REPLY)**

Fines paid for law violations are never deductible for tax purposes, and life insurance proceeds where the company is the beneficiary are never taxed. Therefore, these are permanent differences and do not have tax consequences. Differences due to warranty expenses, however, will create temporary differences and do have tax consequences.

**NEW QUESTION: 503**

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

Days Absent	Cumulative ## of Employees
0-2	60
3-5	31
6-8	14
9-11	6
12-14	2

How many employees were absent between 6 and 11 days?

- A. 8
- B. 12
- C. 20

**Answer: B (LEAVE A REPLY)**

This is found by the difference between the 6-8 class and the 12-14 class. In this case:  $14 - 2 = 12$ .

**NEW QUESTION: 504**

Jackie Gold owned a bond that had a Modified duration of 19.400. If the bond had a coupon of 19.00 %, and a yield to maturity of 8.50 %, then what is the change in bond price given a change in yield of - 290 basis points?

- A. 33.756%
- B. -14.741%
- C. 56.260%

**Answer: C (LEAVE A REPLY)**

Candidates beware of extraneous information and the possible trap set for you! Modified duration estimates the percentage change in bond price with a change in yield and is a very simple computation. You do not need to make the Macaulay adjustment (i.e.  $(\text{Macaulay duration}) - (1 + \text{YTM}/2)$ ) since the modified duration is already provided. This calculation is very straight forward however, do not forget to adjust for the " - " sign at the beginning of the formula. Just remember that bond prices and interest rates move in an inverse manner. Consequently as interest rates decrease, bond prices decrease

(and vice versa). The solution follows: The formula for a bond with a Modified duration is:  $\% \text{ dP} =$

$-\text{Modified Duration} * \text{di}$   $\text{dP}/\text{P} * 100 = -\text{Dmod} * \text{di}$  Where  $\text{dP}$  = change in price for the bond,  $-\text{Dmod}$  = the modified duration for the bond,  $\text{di}$  = the yield change in basis points divided by 100,  $\text{P}$  = beginning price for the bond  $\% \text{ dP} = -19.400 * -2.90 = 56.260\%$

**NEW QUESTION: 505**

The country with a comparative advantage in the production of good X is the one that:

- A. has the greatest technical efficiency in producing good X.
- B. can produce good X with the least labor.
- C. can produce good X at the lowest opportunity cost.

**Answer: C (LEAVE A REPLY)**

Opportunity cost is the only determinant of comparative advantage.

**NEW QUESTION: 506**

Seventy-five employees from a large company were randomly surveyed in regards to the length of time they have been working for the company. The sample revealed a mean of 8.2 years and a standard deviation of 2.3 years.

What is the value of the point estimate of the population mean?

- A. 8.2 years
- B. 75 years
- C. 2.3 years

**Answer: A ([LEAVE A REPLY](#))**

**NEW QUESTION: 507**

Christina Boyer no longer pays her dues to the CFA Institute and is no longer a member, although she had successfully acquired her charter ten years ago. She no longer practices as a financial analyst and has been a homemaker for the past three years. At a dinner honoring her as the Volunteer of the Year for the local high school girl's softball team, the brochure has printed her name as Christina Boyer, CFA, and is introduced as such by the President of the softball league.

- A.** No standard has been violated since Christina had successfully performed all the charter requirements ten years ago.
- B.** Christina has violated Standard VII by using the designation CFA after her name.
- C.** The brochure was not published by Christina so she can claim that no violation on her part has occurred.

**Answer: B ([LEAVE A REPLY](#))**

While it is not a violation to inform people of her prior accomplishment of having attained the CFA charter, she cannot use the CFA designation as she is no longer a member and does not pay her dues or sign the annual professional statement. The CFA designation can only be used by dues paying member-charterholders.

**NEW QUESTION: 508**

A systematic sampling method should not be used when:

- A.** the data are systematically biased.
- B.** the data are divided into open-ended classes.
- C.** the data are already arranged in the form of a predetermined pattern.

**Answer: C ([LEAVE A REPLY](#))**

If the data are already arranged in the form of a predetermined pattern, using systematic sampling can introduce a systematic pattern in the sample itself, which would lead to erroneous inferences about the entire population.

**NEW QUESTION: 509**

The market price of wheat is \$2. The government imposes a legal minimum price (price floor) of \$1.50.

What will be the effect on the market?

- A.** There will be a shortage.
- B.** There will be a surplus.
- C.** There will be no effect.

**Answer: ([SHOW ANSWER](#))**

To be effective, a price floor must be above the market price. As, in this case, the legal minimum price is below the equilibrium price, it will have no effect on the market.

**NEW QUESTION: 510**

Robert withdrew \$100,000 from an account that paid 10 percent annual interest and used the funds to purchase real estate. After one year he sold the property for \$120,000. According to an economist,

Robert's profit on this deal was:

- A. \$120,000.
- B. \$20,000.
- C. \$10,000.

**Answer: C (LEAVE A REPLY)**

The opportunity cost of \$10,000 (foregone interest) must be included to determine economic profit.

### NEW QUESTION: 511

Lower of cost or market rule can be applied directly to:

- A. each inventory item/category only.
- B. total inventory only.
- C. all of them (item, category or total).

**Answer: (SHOW ANSWER)**

The most common practice is to price the inventory on an item-by-item basis. Whichever method is selected, it should be applied consistently from one period to another.

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### NEW QUESTION: 512

Which of the following is/are true about a normal distribution?

- I). It is a bimodal distribution.
  - II). It can be characterized completely by a single parameter.
  - III). It ranges from negative infinity to positive infinity.
  - IV). It is positively skewed.
- A. III and IV
  - B. III only
  - C. II and III

**Answer: B (LEAVE A REPLY)**

A normal distribution is completely characterized by 2 parameters, mean and variance. It ranges from negative infinity to positive infinity, has a single mode or peak (occurring at the mean), is symmetrical about the mean and has zero skewness.

**NEW QUESTION: 513**

Cindy Bolan has a 11.00%, 9.00 bond that is selling for a price of \$140.3830 and is currently yielding 5.30%. The table below shows how the price will vary given a 1 Basis Point change in market interest rates with a duration of 6.28. In this instance, what is the Price Value of a Basis Point (PVBP)?

- A. \$0.0882
- B. \$0.0705
- C. \$0.1146

**Answer: A (LEAVE A REPLY)**

The formula for the Price Value of a Basis Point (PVBP) is equal to: duration \* (.0001) \* 100 \* price = 0.0628% \* the initial price of 140.3830

Note: This is also equal to the difference between the initial price and the price with a one basis point change (increase or decrease). The Original Price (140.3830) - New Price with a One Basis Point

Increase (140.2949) = \$0.0882

**NEW QUESTION: 514**

Toward the top of the economic cycle, as final demand starts to fall off, \_\_\_\_\_ starts to occur abruptly.

- A. Firing workers.
- B. Cut in equipment spending.
- C. Inventory decumulation.

**Answer: B (LEAVE A REPLY)**

At the beginning of a recession, companies don't start firing workers right away, and inventory starts to accumulate involuntarily.

**NEW QUESTION: 515**

Which one of the following would not result in a timing difference?

- I). Accelerated depreciation is used for tax purposes and straight-line is used for financial reporting.
- II). Warranty expense is estimated for financial reporting; however, for tax purposes it is recognized as incurred.
- III). Installment sales are recognized at point of sale for financial purposes but as the cash is received for tax purposes.

- A. I and III.
- B. II only.

C. All would result in a timing difference.

**Answer: C (LEAVE A REPLY)**

All of the items would result in timing differences and the application of income tax allocations.

**NEW QUESTION: 516**

Studies on mutual fund performance indicate

- A. Most mutual funds had higher returns than the benchmark portfolio after expenses
- B. Most mutual funds had lower returns than the benchmark portfolio after expenses and roughly matched the benchmark portfolio before expenses
- C. Most mutual funds had roughly the same returns as the benchmark portfolio after expenses

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 517**

"Material" in the phrase "material non-public information" refers to information that:

- A. is arrived at through discussions with a special friend that works at the company.
- B. is arrived at through discussions with senior management of a company.
- C. a normal investor would consider important in making his investment decision.

**Answer: C (LEAVE A REPLY)**

Information is material if its disclosure would be likely to have an impact on the price of the security, OR if the reasonable investor would want to know the information prior to making the investment decision.

**NEW QUESTION: 518**

The objectives of an effective system of corporate governance include all of the following except

- I). Ensure that the assets of the company are used in the best interest of investors and other stakeholders.
- II). Ensure that the assets of the company are used efficiently and productively.
- III). Ensure complete transparency in disclosures regarding operations, performance, risk and financial position.
- IV). Eliminate or mitigate conflicts of interest among stakeholders.

- A. II and IV.
- B. I and III.
- C. III only.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 519**

Coren, Inc. had 500,000 common shares issued and outstanding at December 31, 2001. On July 1, 2002, an additional 50,000 common shares were issued for cash. Coren also had unexercised stock options to purchase 40,000 common shares at \$15 per share outstanding at the beginning and end of

2 002. The average market price of Coren's common shares was \$20 during 2002. What is the number of shares that should be used in calculating diluted earnings per share for the year ended December 31, 2 002?

- A. 525,000 ,
- B. 535,000
- C. 565,000

**Answer: B (LEAVE A REPLY)**

$500,000 + (50,000 \times 6/12) + [40,000 - (40,000 \times \$15/20)] = \$535,000$

#### **NEW QUESTION: 520**

Securities that are replaced by on-the-run issues are known as

- A. stripped treasury securities.
- B. treasury strips.
- C. off-the-run issues.

**Answer: C (LEAVE A REPLY)**

#### **NEW QUESTION: 521**

Dave Jones is a compliance officer at a large brokerage house. As part of his job description he is required to put in place procedures to ensure that all trades are allocated fairly and accurately, and in a timely and efficient manner. In terms of CFA Institute's Standards of Professional Conduct per Standard:

Fair Dealing, what are some of the factors that he will need to consider?

- I). All orders should be in writing and the date stamped on them.
- II). Orders should be processed on a first-in, first-out basis.
- III). All clients in a block should be given the same execution price.
- IV). Establish procedures for determining material change in opinions.

- A. I and III only.
- B. All of the above.
- C. I, II and III only.

**Answer: C (LEAVE A REPLY)**

Establishing procedures for determining material change in opinions is not a specific procedure to ensure that all trades are allocated fairly and accurately, and in a timely and efficient manner.

#### **NEW QUESTION: 522**

A and B are efficient portfolios. Then,

- A. A combination of investments in A and B is necessarily an efficient investment.
- B. if A has a higher expected return, it must have a lower risk.
- C. A and B have the same risk-to-reward ratio, OR A and B must have the same risk.

**Answer: A (LEAVE A REPLY)**

An efficient frontier is made up of portfolios which have the highest expected return for a given level of risk and the lowest level of risk for a given level of expected returns. Hence, if A has a higher expected return, it must have a higher risk. However, this does not mean that A cannot have a higher risk-to-reward ratio. Finally, a combination of two efficient portfolios is always efficient (property of the frontier).

**NEW QUESTION: 523**

An analyst makes the following estimates about an income-producing property.

Annual gross potential rental income = \$800,000 Annual property operating expenses = 200,000

Annual vacancy and collection losses = 125,000 Capitalization rate = 10% Expected rate of inflation = 4%

Using the direct capitalization approach, the property's estimated market value would be:

A. \$4,750,000

B. \$4,285,714

C. \$3,392,857

Answer: ([SHOW ANSWER](#))

**NEW QUESTION: 524**

An increase in price, all other things unchanged, leads to:

A. Shift demand outwards.

B. Shift demand inwards.

C. A contraction of demand.

Answer: C ([LEAVE A REPLY](#))

This is a movement along the demand curve and leads to a fall in the quantity demanded.

**NEW QUESTION: 525**

Which statement(s) is/are true?

I). The supply curve summarizes information about production conditions.

II). The supply curve indicates the quantity of a good that producers would be willing to supply at different prices.

A. I only.

B. II only.

C. I and II.

Answer: ([SHOW ANSWER](#))

The supply curve indicates both the minimum price necessary to induce producers to supply a specific quantity and the opportunity cost of producing the marginal unit of the good.

**NEW QUESTION: 526**

If a researcher were to choose random days and calculate the difference in sales volume for the two fish markets in New Bedford, Massachusetts and analyze those differences, what type of experiment is being conducted?

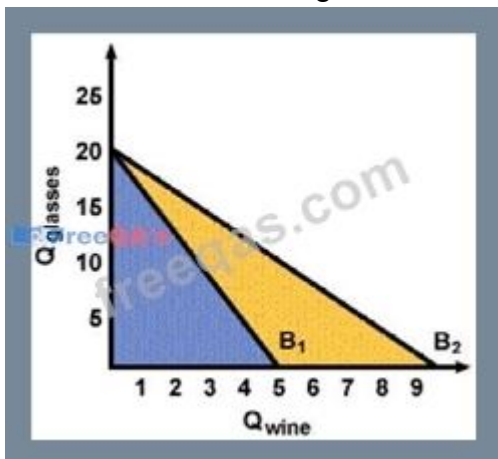
- A. t test
- B. F test
- C. paired difference

Answer: C ([LEAVE A REPLY](#))

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**NEW QUESTION: 527**

B1 is a consumer budget constraint.



Now the line moves to B2. This indicates that:

- A. The consumer's budget has increased.
- B. The price of wine has dropped.
- C. The price of glasses has dropped.

Answer: ([SHOW ANSWER](#))

The budget line rotates out because the consumer can buy more wine.

**NEW QUESTION: 528**

Which type of demand for money is not directly linked to GDP?

- A. transactions-related.
- B. precautionary.
- C. speculative.

Answer: C ([LEAVE A REPLY](#))

Both transactions-related balances and precautionary balances will tend to rise with the volume and value of transactions in the economy and GDP as well.

**NEW QUESTION: 529**

In a common-size statement, the balance sheet is expressed as a percentage of \_\_\_\_\_ while the income statement is expressed as a percentage of \_\_\_\_\_.

- A. assets; net income
- B. liabilities plus equity; sales
- C. liabilities plus equity; net income

**Answer:** ([SHOW ANSWER](#))

**NEW QUESTION: 530**

A firm's ROE equals 47%. Its financial leverage (assets/equity) equals 1.8 and its asset turnover is 0.8.

If the firm's total net sales equal \$1.35 million, its net income equals \_\_\_\_\_.

- A. \$352,500
- B. \$282,000
- C. \$440,625

**Answer:** ([SHOW ANSWER](#))

$ROE = \text{net income}/\text{equity} = (\text{net income}/\text{sales}) * (\text{sales}/\text{assets}) * (\text{assets}/\text{equity}) = (\text{net income}/\text{sales}) * (\text{asset turnover}) * (\text{financial leverage})$  Therefore, net income =  $0.47 * 1.35 / (0.8 * 1.8)$  million = 440,625.

**NEW QUESTION: 531**

The assumptions of capital market theory expand on those of the \_\_\_\_\_ portfolio model and include consideration of the \_\_\_\_\_ rate of return.

- A. Efficient Market; risk-free
- B. Markowitz; risk-free
- C. Efficient Market; above average

**Answer:** B ([LEAVE A REPLY](#))

**NEW QUESTION: 532**

An individual with an engineering degree working as a pizza delivery man as his main source of income is considered to be:

- A. underemployed.
- B. discouraged.
- C. voluntarily unemployed.

**Answer:** A ([LEAVE A REPLY](#))

He in theory can provide a greater benefit to the overall economy if he were working as an engineer.

**NEW QUESTION: 533**

What is the value of a zero-coupon bond that has 6 years to maturity and an applicable interest rate of 9 %?

- A. \$58.97
- B. \$59.63
- C. \$76.79

**Answer: A (LEAVE A REPLY)**

$N=12, I/Y=4.5, PMT=0, FV=100, PV=?=58.97$

#### **NEW QUESTION: 534**

Which of the following is/are true?

- I). The mean deviation can never be negative.
- II). The range of a data set can never be negative.
- III). The mean deviation is always less than the mean absolute deviation (MAD).

- A. I and II.
- B. II and III.
- C. I and III.

**Answer: (SHOW ANSWER)**

Range of a dataset = maximum value - minimum value. Therefore, the range can never be negative. Also, since the mean deviation is the average of the absolute deviations from the mean, the MD can never be negative, either. Finally, mean deviation and mean absolute deviation are one and the same thing.

#### **NEW QUESTION: 535**

Which of the following is incorrect?

- A. If real interest rates are stable (consistent with Irving Fisher's idea), and the expectations hypothesis is true then an upward sloping yield curve implies that the market expects the inflation to fall.
- B. Suppose the expectations hypothesis is true and the one year yield is less than the two year yield. Then the market expects the one year spot rate a year from now to be greater than the current spot rate.
- C. If the expectations hypothesis is true, then the current three-year yield would equal the yield of a two-year bond today plus the expected return on a one-year bond purchased two years from today.

**Answer: A (LEAVE A REPLY)**

Irving Fisher's idea was that interest rates equal real interest rate plus expected inflation.

That means an upward sloping yield curve would imply that the market expects inflation to rise.

#### **NEW QUESTION: 536**

A 10-year, 8% coupon bond has a duration of 4.1 and a convexity measure of 168. If the yield on this bond was to decrease by 55 basis points, what would be the estimate of the bond's percentage price change?

- A. 2.25%
- B. 2.76%
- C. 3.41%

**Answer: B (LEAVE A REPLY)**

$$\% \Delta P = D(\Delta r) + C (\Delta r)^2 = -4.1 * -0.0055 + 168 * (-0.0055)^2 = 2.76\%.$$

#### NEW QUESTION: 537

Municipal securities:

- A. are always exempt from federal, state and local taxes.
- B. may be exempt from federal taxes.
- C. do not have any credit risk.

**Answer: B (LEAVE A REPLY)**

#### NEW QUESTION: 538

Which of the following conditions is not a criterion for classifying a lease as a capital lease?

- A. The present value of the minimum lease payments is at least 75% of the fair value of the leased asset.
- B. The lessee has the option of acquiring the asset at the end of the lease term at a bargain price.
- C. The lease term is greater than three-quarters of the economic life of the asset.

**Answer: A (LEAVE A REPLY)**

The criterion is that the present value of the minimum net lease payments is at least 90% of the fair market value of the asset at the inception of the lease. Another criterion is "the lease transfers ownership in the leased asset to the lessee at the end of the lease term."

#### NEW QUESTION: 539

Why would a firm use accelerated depreciation for tax purposes and straight-line for financial reporting?

- A. This reduces current taxes and increases accounting income.
- B. This always increases stock price, which always increases management compensation.
- C. It is required by federal law.

**Answer: A (LEAVE A REPLY)**

#### NEW QUESTION: 540

Consider an American put option on March coffee futures contracts. The holder of a SHORT position in this American put option:

- A. may be called upon to sell the March coffee futures contract at any time between now and the option's expiration date

**B.** may be called upon to purchase the March coffee futures contract at any time between now and the option's expiration date

**C.** may be called upon to purchase the March coffee futures contract only on the option's expiration date

**Answer: (SHOW ANSWER)**

The holder of the LONG position in this American option may exercise it on or before the expiration date.

**NEW QUESTION: 541**

When yields are above the coupon rate the price of a callable bond is dependent on \_\_\_\_\_ and when the yield is below the coupon rate the price is dependent on \_\_\_\_\_.

**A.** the present value of future cash flows to maturity; the term to maturity

**B.** the call price; the present value of future cash flows to maturity

**C.** the present value of future cash flows to maturity; the call price

**Answer: C (LEAVE A REPLY)**

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**NEW QUESTION: 542**

Which of the following statements is (are) true with respect to the effects embedded options would have on the price and the yield of the underlying bond?

I). The yield on puttable bonds will always be lower than the yield on an otherwise identical option free bond.

II). The greater the interest rate volatility assumed, the lower will be the price of an option free bond.

III). Option adjusted spread, in general, is simply the compensation to an investor for bearing credit and liquidity risk.

IV). For an option free bond, the zero volatility (or static) spread will be higher than its corresponding option adjusted spread.

**A.** I, II and IV.

**B.** II and IV.

**C.** I and III.

**Answer: C (LEAVE A REPLY)**

I is true because the price of puttable bonds are always more expensive than non-puttable bonds (this is because the put in the bond would be an attractive feature to the investor - i.e. He has to pay for it). Consequently, this higher price for a puttable bond will translate into a lower yield.  
II is incorrect because interest rate volatility only has an impact on the embedded options. In other words, as the interest rate volatility is assumed to increase, both the call and the put values will increase.

However, in the absence of these options, the bond price will not be affected

III is true because option adjusted spread is the spread that is left once the adverse effects that a call option will have on the investor's return, have been stripped away.

IV is incorrect because for an option free bond, the zero volatility (or static) spread and its corresponding option adjusted spread will be equal. The only difference between the two measures is the incremental yield due to call risk. Hence, in the absence of this call risk, the two measures of spread will produce the same result.

### **NEW QUESTION: 543**

Which of the following statements is/are TRUE?

- I). The stated interest rate is a quoted interest rate that does not account for compounding within the year.
- II). The periodic rate is the quoted interest rate per period and is equal to the stated annual interest rate divided by the number of compounding periods per year.
- III). The effective annual rate is the amount to which a unit of currency will grow in a year with interest on interest included.

- A. II and III.
- B. I and III.
- C. I, II and III.

**Answer: C (LEAVE A REPLY)**

The stated interest rate is a quoted interest rate that does not account for compounding within the year. The periodic rate is the quoted interest rate per period and is equal to the stated annual interest rate divided by the number of compounding periods per year. The effective annual rate is the amount to which a unit of currency will grow in a year with interest on interest included.

### **NEW QUESTION: 544**

Which of the following would indicate a company is using conservative accounting policies?

- A. A policy of expensing start-up costs for new businesses.
- B. Amortization periods are being extended.
- C. Investment income is reported as part of revenue.

**Answer: A (LEAVE A REPLY)**

### **NEW QUESTION: 545**

Given a constant money supply, people may be expected to purchase more bonds if the money interest rate is \_\_\_\_\_ the equilibrium rate in the money balances market.

- A. no relationship
- B. lower than
- C. higher than

**Answer: (SHOW ANSWER)**

When actual interest rate is higher than the equilibrium rate, there is an excess of money supply. People are expected to reduce their holding of money balances and purchase some bonds to take advantage of high rates. The process will move the market for money balances toward equilibrium.

**NEW QUESTION: 546**

Journalizing is performed by transferring information from the

- A. journal to the ledger.
- B. source documents to the ledger.
- C. source documents to the journal.

**Answer: C (LEAVE A REPLY)**

Posting is the process of transferring information from the journal to the ledger. Journalizing is the process of recording transactions in chronological order from source documents to the journal.

**NEW QUESTION: 547**

If two companies have identical operating risk, they also have identical

- A. Total leverage.
- B. Business risk.
- C. Sensitivity of operating earnings to changes in the number of units produced and sold.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 548**

At a price of \$30, a firm sells 150 units of output per day. The slope of the demand curve is 0.1 (in absolute value). If the marginal cost of production is \$8, what should the firm do?

- A. increase price
- B. decrease price
- C. shut down

**Answer: B (LEAVE A REPLY)**

$MR = 30 - (150 \cdot 0.1) = 15$ . Since marginal revenue exceeds marginal cost, the firm should produce more output, which requires lowering the price.

**NEW QUESTION: 549**

Jason has \$500 in a savings account which earns 5% compounded annually. How much additional interest would he earn in four years if he moved the money to an account which earns 6%?

- A. \$21.89
- B. \$25.88

C. \$23.49

**Answer: C** ([LEAVE A REPLY](#))

**NEW QUESTION: 550**

The \_\_\_\_\_ ratio is the most conservative liquidity ratio.

- A. quick
- B. current
- C. cash

**Answer: C** ([LEAVE A REPLY](#))

By definition: Cash Ratio = (Cash and Marketable Securities/Current Liabilities). The cash ratio is the most conservative liquidity indicator because only the most liquid of the firm's assets are used.

**NEW QUESTION: 551**

A depository receipt is a \_\_\_\_\_ DR when the foreign company whose shares are held by the depository has a direct involvement in the issuance of the receipts.

- A. sponsored.
- B. participating.
- C. involved.

**Answer: A** ([LEAVE A REPLY](#))

Investors in sponsored DRs have the same rights as the direct owners of the common shares.

**NEW QUESTION: 552**

Which of the following combinations of interest rate options would replicate a 6-month by 9-month forward rate agreement to pay 5% fixed? The LIBOR below refers to the 3-month LIBOR.

- A. Long a 6-month call on LIBOR and short a 6-month put on LIBOR.
- B. Long a 9-month call on LIBOR and short a 9-month put on LIBOR.
- C. Long a 6-month call on LIBOR and long a 6-month put on LIBOR.

**Answer: A** ([LEAVE A REPLY](#))

If LIBOR exceeds 5%, this combination will result in an inflow of funds just like an FRA. If LIBOR drops below 5%, this combination will result in an outflow of funds just like an FRA

**NEW QUESTION: 553**

Covariance of returns is zero

- A. when the return on one asset is below its expected value, the return on the other asset is also below its expected value.
- B. if returns on the assets are unrelated.
- C. when the co-movement between random variables is linear.

**Answer: B** ([LEAVE A REPLY](#))

Covariance of returns is zero if returns on the assets are unrelated.

**NEW QUESTION: 554**

A stock jumps 10% in one trading day after being in a long downtrend, The volume for the day is below average. Technicians usually interpret this as a sign of a:

- A. trend reversal.
- B. divergence.
- C. price rally.

**Answer: (SHOW ANSWER)**

A divergence is a contradiction between two different indicators. The simplest example of divergence is a clear upward trend on declining volume.

**NEW QUESTION: 555**

A profit-maximizing monopoly will produce an output where

- A. demand is inelastic.
- B. demand is unitary elastic.
- C. demand is elastic.

**Answer: C (LEAVE A REPLY)**

A single-price monopoly never produces an output at which demand is inelastic. If it did produce such an output, the firm could increase total revenue, decrease total cost, and increase economic profit by decreasing output.

**NEW QUESTION: 556**

An analyst has extracted the following information from the financial statements of Myco:

Item	Amount
Sales	13,865
Pre-tax income	1,298
Tax rate	35%
Total Asset turnover ratio	1.42
Equity – capital and surplus	3,086
Retained earnings	5,653
Dividends paid (current year)	274

What is the return on equity for Myco?

- A. 14.85%
- B. 22.85%
- C. 9.65%

**Answer: C (LEAVE A REPLY)**

ROE = Net income / Equity =  $[0.65 \times 1,298] / [3,086 + 5,653] = 0.0965$ , or 9.65%

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**NEW QUESTION: 557**

Which of the following statements are false?

- I). Long-term creditors have an avid interest in the accounts receivable turnover rate.
- II).  $\text{Operating income} / \text{Annual interest expense} = \text{Interest coverage}$ .
- III).  $\text{Operating income} / \text{Average total assets} = \text{Return on equity}$ .

- A. I and II.
- B. I and III.
- C. all are false.

**Answer: B (LEAVE A REPLY)**

- I). Short-term creditors primary interests are the firm's current position, such as working capital, accounts receivable turnover rate, inventory turnover rate, operating cycle, current ratio, quick ratio, and unused lines of credit.
- II). Interest coverage, or times interest earned, is a common measure of creditors' safety (particularly bondholders).
- III). Return on equity is net income expressed as a percentage of average total stockholders' equity.

Return on assets is operating income expressed as a percentage of average total assets. The return on assets is a measure of the efficiency with which management utilizes the assets of a business.

**NEW QUESTION: 558**

Consider the following conditions of ending inventory and the stated results:

Ending Cost of Inventory Goods Sold Net Income

- A. Overstated Overstated Overstated
- B. Overstated Understated Understated
- C. Understated Overstated Understated

Which condition is true with regard to the ending inventory?

- D. Condition A
- E. Condition B
- F. Condition C

**Answer: C,F (LEAVE A REPLY)**

When ending inventory is understated, inventory costs assigned to the cost of goods sold will be overstated and consequently the net income will be understated.

**NEW QUESTION: 559**

Between 1981 and 1983, the annual rate of increase in the Canadian total consumer price index (CPI) declined from 12.5 per cent to just under 6 per cent. Again, from 1990 to 1992, the rate of inflation slowed from about 5 per cent to 1.5 per cent. This is an example of:

- A. inflation.
- B. deflation.
- C. disinflation.

**Answer: C (LEAVE A REPLY)**

Disinflation is a decrease in the rate of inflation.

**NEW QUESTION: 560**

A portfolio earned the following rates of return over a period of twelve months.

Month	1	2	3	4	5	6	7	8	9	10	11	12
Portfolio (%)	1.25	-0.15	-0.35	0.01	0.75	-0.28	0.96	2.01	-0.05	-0.46	0.23	-1.05
Risk free	0.13	0.12	0.14	0.14	0.11	0.15	0.14	0.13	0.12	0.14	0.11	0.12

What is the portfolio's co-efficient of variation?

- A. 3.54
- B. 0.33
- C. 3.04

**Answer: A (LEAVE A REPLY)**

Co-efficient of variation = Std. dev./Average return = 0.85/0.24 = 3.54.

**NEW QUESTION: 561**

Cindy Philongy wants to purchase the Booboo.com bond shown below. It has a BBB-rating, a coupon of 3.60% and a price of 87.8141. What is the nominal yield spread for the Booboo.com bond, given that the comparable maturity Treasury has a YTM of 5% (selling at par) and the Booboo.com bond has a YTM of 7.6331%?

Present Value

- A. 237 Basis Points.
- B. 272 Basis Points.
- C. 263 Basis Points.

**Answer: C (LEAVE A REPLY)**

Candidates should not be distracted from all of the extraneous information. The calculated values correspond with the Z spread, not the nominal spread. The nominal spread equals the YTM of 7.6331% less the Treasury YTM of 5% = 2.6331% or approximately 263 Basis Points.

**NEW QUESTION: 562**

Which of the following is secured only by the reputation of the issuing firm?

- A. bearer bond

- B. unfunded bond
- C. debenture

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 563**

Selecting a depreciation method that results in higher earnings than the economic depreciation of the assets warrant is an example of

- A. Following GAAP but selecting alternatives within GAAP that bias or distort reported results to achieve a desired outcome.
- B. Using loopholes or bright-lines in accounting principles to structure transactions to achieve a desired outcome that differs from the economic structure of the transaction.
- C. Using unrealistic or inappropriate estimates and assumptions to achieve a desired outcome.

**Answer: A (LEAVE A REPLY)**

**NEW QUESTION: 564**

Which of the following statements about unweighted indexes is incorrect?

- A. The Value Line Composite Index is an unweighted index.
- B. Index movements are typically based on the geometric average of the percentage price changes for the stocks in the index.
- C. These indexes are useful in measuring situations where equal dollar amounts of each stock are held.

**Answer: (SHOW ANSWER)**

Index movements are typically based on the arithmetic average of the percentage price changes for the stocks in the index.

**NEW QUESTION: 565**

An automatic machine inserts mixed vegetables into a plastic bag. Past experience revealed that some packages were underweight and some were overweight, but most of them had satisfactory weight.

Weight: % of Total Underweight: 2.5 Satisfactory: 90.0 Overweight: 7.5

Three packages are selected from the food processing line.

What is the probability of selecting and finding that all three of them are satisfactory?

- A. 0.729
- B. 0.810
- C. 0.075

**Answer: (SHOW ANSWER)**

$P(\text{all three satisfactory}) = 0.9 \times 0.9 \times 0.9 = 0.729.$

**NEW QUESTION: 566**

The variance of a portfolio of risky securities is

- A. the weighted sum of the securities' variances and covariances.

B. a weighted sum of the securities' variances.

C. the sum of the securities' variances.

**Answer: A (LEAVE A REPLY)**

**NEW QUESTION: 567**

To achieve its objectives, the Federal Reserve has selected as its monetary policy tool

A. the interest rate on short-term U.S. government securities.

B. the federal funds rate.

C. the monetary base.

**Answer: B (LEAVE A REPLY)**

This is the same choice as that made by most other major central banks.

**NEW QUESTION: 568**

Which of the following statements would be an indication that the firm may use the percentage-of-completion method?

I). A reliable estimate of the costs of the project cannot be estimated; however the contractor does have cost data from other projects.

II). There exists some uncertainty about the current credit-worthiness of the purchaser of the contract, but he has paid billings in the past.

III). There is no formal contract; however there exists a verbal contract between the two parties.

IV). A reliable estimate of the portion of the contract that has been completed can be made.

A. I and IV.

B. II and III.

C. IV only.

**Answer: (SHOW ANSWER)**

The first three statements are actually indications that the completed-contract method should be used. The contractor has to be able to make reliable estimates on this project, not others. Any indication of uncertainty about collection would rule out the percentage-of-completion method. A formal contract should be in place before the percentage-of-completion method is used.

**NEW QUESTION: 569**

Taylor Corporation has determined that a printing press that it purchased in 2008 for \$400,000 has become partially obsolete due to newer equipment purchased in 2010. The press had a book value of

\$ 160,000 at December 31, 2010. At the end of the press' life, the estimated value is \$40,000, and the net future cash flows from using the machine are estimated to be \$90,000. These cash flows have a present value of \$73,800 and \$32,200, from the future cash flows and residual value, respectively. What amount should Taylor record as "loss due to asset impairment" (Under U.S. GAAP)?

A. \$30,000

B. \$32,000

C. \$54,000

**Answer: C (LEAVE A REPLY)**

When a fair market is not available, the discounted future cash flows can be used as the cost basis. The present value of the future cash flows is \$106,000 (\$73,800 + \$32,200). The loss is \$54,000 (\$160,000 book value less \$106,000).

**NEW QUESTION: 570**

Which statement is false?

- A. Industries with high barriers to entry can still be very competitive.
- B. Many cyclical industries produce durable, commodity-like goods such as raw materials, cars, chemicals, construction, paper, steel, and heavy equipment.
- C. Company analysis takes place before the analyst has gained understanding of the company's external environment.

**Answer: (SHOW ANSWER)**

A is true - High barriers to entry don't automatically lead to good pricing power. B is true - Given the durable nature of the goods, such purchases often get postponed in poor economic conditions, but sell especially well in good economic conditions. C is false - it should take place AFTER ...

**NEW QUESTION: 571**

The stock \_\_\_\_\_ is a close substitute for a cash dividend.

- A. dividend
- B. split
- C. repurchase

**Answer: (SHOW ANSWER)**

A stock repurchase is a close substitute for a cash dividend.

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**NEW QUESTION: 572**

\_\_\_\_\_ is an unsecured obligation of the issuing company.

- A. The deed of trust
- B. A debenture

C. A indenture

Answer: ([SHOW ANSWER](#))

**NEW QUESTION: 573**

When regional integration results in the replacement of higher-cost domestic production by lower-cost imports from other members, \_\_\_\_\_ occurs.

- A. trade creation.
- B. trade liberalization.
- C. trade diversion.

Answer: ([SHOW ANSWER](#))

Consumers will buy more due to the price drop.

**NEW QUESTION: 574**

Gross Sales total \$505,000 and Sales Returns & Allowances total \$15,000. Average accounts receivable for the period are \$42,000. What is the accounts receivable turnover rate?

- A. 11.67
- B. 12.02
- C. 12.38

Answer: ([SHOW ANSWER](#))

Net sales total \$490,000 (\$505,000 - \$15,000). The net sales divided by the average accounts receivable equals the accounts receivable turnover rate:  $(\$490,000/\$42,000) = 11.67$ .

**NEW QUESTION: 575**

Which of the following is true for monopolistically competitive firms in long-run equilibrium?

- A. Price exceeds average total cost.
- B. Price exceeds marginal cost.
- C. Price equals the minimum average total cost.

Answer: B ([LEAVE A REPLY](#))

Since the monopolistic competitor operates where  $P = ATC$  in the long run and  $MC < ATC$  for the firm then it is true that  $P > MC$

**NEW QUESTION: 576**

The fixed charge coverage ratio will always be equal to or \_\_\_\_\_ than times interest earned, and the current ratio will always be equal to or \_\_\_\_\_ than the quick ratio.

- A. less: greater.
- B. less: less.
- C. greater: greater.

Answer: A ([LEAVE A REPLY](#))

Fixed charge coverage includes lease expenses, and other fixed charges not in the times interest earned ratio. The current ratio includes inventory in the numerator while the quick ratio does not.

**NEW QUESTION: 577**

On December 1, 2003, Myles Corporation leased office space for 10 years at a monthly rental of \$ 100,000. On that date Myles paid the landlord the following amounts:

Rent deposit: \$100,000 First month's rent 100,000 Last month's rent 100,000 Installation of new walls and offices: 540,000 Total: \$840,000

The entire amount of \$840,000 was charged to rent expense in 2003. What amount should Myles have charged to expense for the year ended December 31, 2003?

- A. \$100,000.
- B. \$104,500.
- C. \$204,500.

**Answer: B (LEAVE A REPLY)**

Rent expense should include items relevant to the current year.  $\$100,000 + [(\$540,000 / 10) / 12]$

**NEW QUESTION: 578**

Which exchange rate regime allows the monetary authority to earn seignorage?

- A. Managed float.
- B. Active crawling peg.
- C. Currency board system.

**Answer: C (LEAVE A REPLY)**

A currency board can earn profit from interest on foreign reserves.

**NEW QUESTION: 579**

A(n) \_\_\_\_\_ 's object is to earn a return in excess of the fair rate of return.

- A. hedger.
- B. investor.
- C. information-motivated trader.

**Answer: C (LEAVE A REPLY)**

Information-motivated traders trade to profit from information that they believe allows them to predict future prices.

**NEW QUESTION: 580**

An analyst gathered the following information about a company:

01/01/01 - 20,000 shares issued and outstanding at the beginning of the year

\*

04/01/01 - 5.0% stock dividend

\*

07/01/01 - 5,000 shares repurchased

\*

10/01/01 - 2:1 stock split

\*

What is the company's weighted average number of shares outstanding at the end of 2001?

- A. 37,000.
- B. 39,500.
- C. 45,000.

**Answer: A (LEAVE A REPLY)**

The end-of-period weighted average number of common shares outstanding is the number of shares outstanding during the year weighted by the portion of the year they were outstanding. Dividends and splits are applied to all shares issued or repurchased and all original or adjusted shares outstanding prior to the split or dividend. Step 1) Apply the 04/01/01 dividend to the beginning of year shares: Adjusted shares =  $1.05 \times 20,000 = 21,000$ . Step 2) Apply the 10/01/01 split to the adjusted beginning-of-year shares and the repurchase. Adjusted beginning-of-year shares =  $42,000 (= 2 \times 21,000)$ .

Adjusted repurchase =  $10,000 (= 2 \times 5,000)$ . Step 3) Compute the weighted average number of shares.

$4 \times 2,000(12/12) - 10,000(6/12) = 37,000$  shares.

#### **NEW QUESTION: 581**

Standard deviation and beta both measure risk, but they are different in that beta measures:

- A. only unsystematic risk, while standard deviation is a measure of total risk.
- B. only systematic risk, while standard deviation is a measure of total risk.
- C. both systematic and unsystematic risk, while standard deviation measures only systematic risk.

**Answer: B (LEAVE A REPLY)**

#### **NEW QUESTION: 582**

What do we call the value z that is computed using sample data?

- A. Test statistic
- B. Parameter
- C. None of these answers

**Answer: A (LEAVE A REPLY)**

The z-values are statistics generated to provide a measure of testing the hypothesis.

#### **NEW QUESTION: 583**

The price volatility of a variable rate note may be reduced by:

- A. eliminating any put features.
- B. resetting the coupon rate more frequently.
- C. reducing the size of the issue or downgrading the quality rating.

**Answer: B (LEAVE A REPLY)**

#### **NEW QUESTION: 584**

Suppose that all of the fast-food restaurants in the entire world are purchased by one firm. Relative to the current (competitive) price and quantity (and assuming that nothing else has changed), we would expect the monopolist to:

- A. sell more and charge less.
- B. sell more and charge more.
- C. sell less and charge more.

**Answer: (SHOW ANSWER)**

Relative to perfectly competitive industries, monopolies will restrict output, allowing them to charge a higher price and make a profit. This results in a net loss of benefits to society.

#### **NEW QUESTION: 585**

Which condition in general gives industry participants more pricing power?

- A. Overcapacity industry.
- B. Concentrated industry.
- C. Industry with low entry barriers.

**Answer: (SHOW ANSWER)**

Overcapacity leads to price cutting and a very competitive environment.

#### **NEW QUESTION: 586**

A beginning amount of \$75,000 is invested at 13% per year. At the beginning of each year for the next 30 years, a withdrawal is to be made to pay insurance premiums. What is the largest premium this investment will support?

- A. \$10,005.80
- B. \$8,854.69
- C. \$7,836.01

**Answer: B (LEAVE A REPLY)**

BGN, PV = -\$75,000; n = 30; i = 13%; CPT PMT = \$8,854.69

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#### **NEW QUESTION: 587**

The before-tax cost of debt capital for a firm \_\_\_\_\_.

- A. is the return that the firm's creditors demand on new borrowing.

**B.** can be estimated by finding the yield on recently issued, longer maturity bonds with a lower bond rating.

**C.** can be calculated by looking at the coupon rates on existing bonds of similar risk.

**Answer: A** ([LEAVE A REPLY](#))

#### **NEW QUESTION: 588**

The ZYT Company went public on June 1, 1999, by issuing 25 million shares of common stock. In 2000, the firm raised additional capital by issuing 2 million shares of preferred stock. What is the weighted average number of common shares outstanding for the year ending December 31, 2000?

**A.** 14,583,333.

**B.** 15,750,000.

**C.** 25,000,000.

**Answer: (SHOW ANSWER)**

The weighted average number of common shares outstanding is the number of shares outstanding during the year weighted by the portion of the year they were outstanding. Since no new common shares were issued in 2000, and there were 25 million shares at the end of 1999, there are 25 million shares at the end of 2000. Note that the preferred stock shares do not affect the common shares outstanding.

#### **NEW QUESTION: 589**

Ms. Sweetwater's biology class had a standard deviation of 2.4 on a standardized test, while Ms. Quincy's biology had a standard deviation of 1.2 on the same test. What can be said about these two classes?

**A.** Ms. Sweetwater's class is more homogeneous than Ms. Quincy's.

**B.** Ms. Sweetwater's class performed twice as well on the test as Ms. Quincy's.

**C.** Ms. Quincy's class is less heterogeneous than Ms. Sweetwater's.

**Answer: C** ([LEAVE A REPLY](#))

#### **NEW QUESTION: 590**

An investor can liquidate his holdings in a closed-end fund by\_\_\_\_\_.

**A.** selling his shares in the secondary market.

**B.** selling his shares back to the fund at the fund's net asset value.

**C.** selling his shares back to the fund after paying a redemption fee.

**Answer: A** ([LEAVE A REPLY](#))

Closed-end funds raise initial capital by selling shares. However, the funds do not sell or buy back their shares from the shareholders. Like the shares of any other company, shares of closed-end funds trade on the secondary markets.

#### **NEW QUESTION: 591**

Which of the following statements is least accurate with respect to parametric and nonparametric tests?

- A. A nonparametric test makes very little assumptions about the distribution of the underlying population.
- B. Nonparametric tests cannot be used when data is expressed in terms of ranks.
- C. A parametric test makes specific assumptions about the distribution of the underlying population.

**Answer: B ([LEAVE A REPLY](#))**

Nonparametric tests may certainly be used when data is expressed in terms of ranks.

#### **NEW QUESTION: 592**

Features of a firm's technology that lead to falling long-run average cost as output increases are

- A. diseconomies of scale.
- B. economies of scale.
- C. diminishing returns.

**Answer: B ([LEAVE A REPLY](#))**

#### **NEW QUESTION: 593**

An analyst gathers the following information:

Years to Maturity Spot Rate

15.00%

26.00%

36.50%

Based on the data above, the one-year implied forward rate two years from now is closest to:

- A. 7.51%.
- B. 7.01%.
- C. 6.25%.

**Answer: A ([LEAVE A REPLY](#))**

#### **NEW QUESTION: 594**

On a survey questionnaire, students were asked to indicate their class rank in college. If there were only four choices from which to choose, which measure(s) of central tendency would be appropriate to use for the data generated by that questionnaire item?

- A. Mean and mode
- B. Mode and median
- C. Mean and median

**Answer: ([SHOW ANSWER](#))**

We can discard the mean since it is not appropriate here. If we want to find out which class has the most students or where the students are most frequently ranked, then the mode and median should be used.

**NEW QUESTION: 595**

What is the median of the following observations: 34,21,89,45,66,11,38,57?

- A. 41.5
- B. 55.5
- C. 23.0

**Answer: A (LEAVE A REPLY)**

The median is the middle observation after sorting the data in ascending or descending order. For odd number of observations it is the middle observations. For even number of observations, it is the average of the middle two observations. Upon sorting: 11, 21, 34, 38, 45, 57, 66, 89 The middle two observations are 38 and 45, with their average being 41.5. There is even number of observations.

**NEW QUESTION: 596**

Abbey Company issued \$1,000,000 of 10-year bonds with a contractual interest rate of LIBOR + 2%.

The interest rate is to be reset annually. Bondholders will receive interest annually. The LIBOR for the year 2000 is 5.5%. The entry to record interest expense for the year 2000 is

- A. Interest expense (debit) 55,000; Discount on bonds payable (debit) 20,000; Accrued interest payable (credit) 75,000
- B. Interest expense (debit) 75,000; Discount on bonds payable (credit) 20,000; Accrued interest payable (credit) 55,000
- C. Interest expense (debit) 75,000; Accrued interest payable (credit) 75,000

**Answer: (SHOW ANSWER)**

Floating rate debt is almost always issued at par, so there is no premium or discount to be amortized. Interest expense is debited for \$75,000 which is the face value of \$1 million \* the interest rate of 7.5% (the LIBOR of 5.5% plus 2%).

**NEW QUESTION: 597**

A statistician is calculating the confidence interval for but the standard deviation of the sampled population is unknown. It is acceptable to use the sample standard deviation in place of the population standard deviation when

- I). when the sample distribution is normally distributed.
  - II). the sample size is greater than 30.
  - III). when the sample distribution behaves according to the Central Limit Theorem.
- A. I and II.
  - B. I, II and III.
  - C. I and III.

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 598**

For the hypothesis test below where the decision is fail to reject  $H_0$ , a Type II error could have been

0

committed. A correct discussion of the error would be \_\_\_\_\_.

$$H_0 : \mu = 90$$

$$H_a : \mu \neq 90 \quad \alpha = 5\%$$

$$\sigma = 1.0$$
$$n = 50$$
$$\bar{x} = 89.9$$

$$\text{Critical value} = \pm 1.96$$

$$\text{Test value} = -0.71$$

Decision Fail to reject  $H_0$

Conclusion There is no evidence that  
the length of rods  
produced by Machine A  
is not 90 cm.

- A. Going along with the length of rods produced by Machine A is 90 cm when in fact the length is not equal to 90 cm.
- B. Concluding that the length of rods produced by Machine A is 90 cm when in fact the length is not equal to 90 cm.
- C. Concluding that the length of rods produced by Machine A is not equal to 90 cm when in fact the length is equal to 90 cm.

**Answer: (SHOW ANSWER)**

A Type II error is failing to reject  $H_0$  when  $H_0$  is in fact false. In terms of the problem this says-

0 0

going along with the length of the rods produced by Machine A is equal to 90 cm (fail to reject  $H_0 : \mu = 90$ )

0

when in fact the length of the rods is not 90 cm ( $H_0 : \mu = 90$  is false).

0

**NEW QUESTION: 599**

An industry experiencing rapidly increasing demand and improving profitability is best characterized as being in the \_\_\_\_\_ stage.

- A. embryonic
- B. growth
- C. shakeout

**Answer: (SHOW ANSWER)**

Low competition among companies in the industry.

**NEW QUESTION: 600**

The embedded options that are granted to the issuer of a bond MAY include:

- I). the right to call the issue.
- II). the right of the underlying borrowers in a pool of loan to repay an amount in excess of the scheduled principal repayment.
- III). the accelerated sinking fund provision.
- IV). the cap on a floater.

- A. I, III and IV.
- B. I, II, III and IV.
- C. I, II and III.

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 601**

Default risk can be described as

- A. the risk that the issuer will fail to satisfy the terms of the obligation with respect to the timely payment of interest.
- B. the risk that the issuer will fail to satisfy the terms of the obligation with respect to the timely payment of the amount borrowed.
- C. the risk that the issuer will fail to satisfy the terms of the obligation with respect to the timely payment of interest and repayment of the amount borrowed.

**Answer: C (LEAVE A REPLY)**

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**NEW QUESTION: 602**

Beer and wine are the only goods produced in a perfectly competitive economy. Each is produced in a constant-cost industry and currently in equilibrium. Suddenly there is a permanent shift in the preferences of consumers in favor of beer and away from wine.

As a wine producer, in the short run, your best strategy is to:

- A. keep operating as long as you can cover your average costs.
- B. increase the price of your wine to compensate for decreased sales.
- C. continue operating as long as you can cover your average variable costs.

**Answer: C (LEAVE A REPLY)**

Producers in the wine industry will experience short run losses (the market price will be below average costs). As long as the firm can cover its variable costs, each sale will make some contribution toward reducing total losses. If the firm cannot cover its variable costs, then it will earn greater losses by operating the plant instead of shutting the plant down.

**NEW QUESTION: 603**

Branded pharmaceuticals industry is a(n) \_\_\_\_\_ industry.

- A. cyclical.
- B. defensive.
- C. growth.

**Answer: B (LEAVE A REPLY)**

Demand for most health care services does not fluctuate with the economic cycle, but demand is not strong enough to be considered "growth".

**NEW QUESTION: 604**

Which of the following is an example of ordinal data?

- A. morning commute (in miles) of teachers at Midtown High School
- B. 1st, 2nd, and 3rd place finishers of the 2000 Boston Marathon
- C. ocean temperature at seven beaches along the east coast of the U.S.

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 605**

If a Board Member leases a company airplane for free personal use, it is an indication of

- A. related-party transactions.
- B. personal use of company assets.
- C. inappropriate executive compensation.

**Answer: (SHOW ANSWER)**

On the other hand, if a Board Member leases his or her own airplane to the Company, it will be considered as a related-party transaction.

**NEW QUESTION: 606**

A closed-end investment company that invests in various types of real estate and/or real estate mortgages is called a:

- A. property annuity.
- B. real property mutual fund.
- C. REIT.

**Answer: C (LEAVE A REPLY)**

REITs securitize real estate assets and facilitate indirect investment in real estate market.

**NEW QUESTION: 607**

A futures contract whose underlying good is U.S. Treasury bills would be classified as a(n) \_\_\_\_\_ contract.

- A. Interest-earning Asset
- B. Foreign Currency
- C. Index

**Answer: A (LEAVE A REPLY)**

U.S. T-bills are interest-earning assets, and their futures contracts are Interest-earning Asset contracts.

**NEW QUESTION: 608**

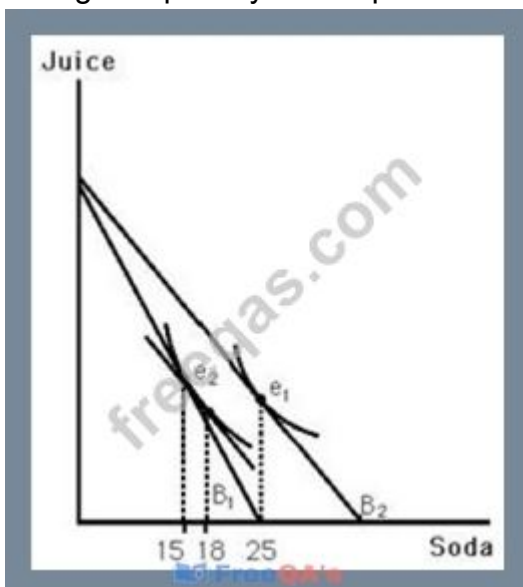
Stone, a financial analyst, follows the Amity Paving Company for his employer. Which one of the following scenarios is Stone least likely to have to disclose to his employer:

- A. The fact that Stone's son worked at Amity as a laborer during the summer while in school.
- B. Stone's personal relationship with the CEO of Amity.
- C. Stone's participation on Amity's board of directors.

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 609**

The following figure shows Bobby's indifference map for soda and juice. B1 indicates his original budget line. B2 indicates his budget line resulting from a decrease in the price of soda. What change in quantity best represents his substitution effect?



- A. 3
- B. 7
- C. 10

**Answer: A (LEAVE A REPLY)**

18 - 15 = 3.

**NEW QUESTION: 610**

Which of the statements is/are true?

- I). The less inelastic is the supply for a factor, the greater is the share of income that is comprised by opportunity cost.
- II). The less elastic is the supply for a factor, the greater is the share of income that is comprised by economic rent.
- III). The less inelastic is the demand for a factor, the greater is the share of income that is comprised by economic rent.
- IV). The less elastic is the demand for a factor, the greater is the share of income that is comprised by opportunity cost.

- A. I and II.
- B. I and III.
- C. II and IV.

**Answer: A (LEAVE A REPLY)**

When the supply is perfectly inelastic, then all of the income is economic rent.

**NEW QUESTION: 611**

The larger the critical value on the z-statistic,

- A. the easier it is to reject the null hypothesis.
- B. the harder it is to reject the null hypothesis.
- C. the easier it is to accept the null hypothesis.

**Answer: B (LEAVE A REPLY)**

To reject a null hypothesis, the z-statistic must be larger in magnitude than the critical value for a given level of significance.

**NEW QUESTION: 612**

Daniel Altman is undecided between purchasing the three period bond or a series of one period bonds.

Unfortunately, the table that provides the forward rates and spot rates for the next few periods is torn and therefore, incomplete. Daniel believes that he has ample information to calculate the three period spot rate even though that data is missing. Given the forward rates and spot rates provided below, what would

Daniel earn on his three period spot rate bond?

Spot Rates and Six Month Forward Rates (Annualized Rates on a Bond Equivalent Basis)

- A. 4.4977
- B. 5.1723
- C. 4.0479

**Answer: (SHOW ANSWER)**

The spot rate is nothing more than all of the forward rates multiplied together taken to the nth root. While the calculation appears more difficult than it actually is, there are a number of areas that can potentially trap some candidates. For example, each spot rate needs to be annualized and needs to be divided by two in order to get the effective period rate. Also, after all of the forward rates have been multiplied by each other (being sure to add "1" to each rate before multiplying) it is important to take the nth root (depending on the number of periods) and to subtract "1" afterwards. The detailed calculation is shown below:

$$((((1+0.040728/2)^2 \times (1+0.0535/2))^{(1/3)} - 1) \times 2 = 0.044977.$$

(Note: If the candidate would prefer to see the number in "percentage" form it is necessary to multiply by "200" rather than by "2")

### NEW QUESTION: 613

Which of the following statements is (are) true with respect to the impact that the capitalization of interest will have on certain financial ratios?

- I). Interest coverage ratios will increase.
- II). Accounting income will increase relative to cash flow.
- III). Current ratio will increase.
- IV). Asset turnover ratios will increase.

- A. I and II.
- B. II and III only.
- C. I, III and IV.

**Answer: (SHOW ANSWER)**

III is incorrect because capitalized interest will be a part of long term assets rather than current assets.

IV is not correct because capitalized interest will inflate asset values, causing the asset turnover ratio to actually drop.

### NEW QUESTION: 614

A portfolio manager with Churn Brothers Brokerage has recently been approached by one of its institutional accounts requesting that the dollar-weighted rate of return for the Microspeculative investment be calculated. Consider the following series of transactions: t0: Purchase 20,000 shares for \$ 0.90 per share t1: Purchase 50,000 shares for \$1.13 per share t2: Purchase 50,000 shares for \$1.20 per share t3: Sell 20,000 shares of for \$1.22 per share Sell 80,000 shares of for \$1.20 per share Sell 20,000 shares of for \$1.17 per share Ignoring commissions, what is the dollar-weighted rate of return for this investment?

- A. (3.77%)
- B. 4.02%
- C. 4.94%

**Answer: B (LEAVE A REPLY)**

Remember that the dollar-weighted rate of return uses the IRR equation in the determination of its answer. Further, the dollar-weighted rate of return is another name for the IRR equation, and this nomenclature is commonly used within the field of investment management. The logic behind this characterization is the fact that the IRR equation takes into account both the timing and scale of all project cash flows. In the determination of the dollar-weighted rate of return calculation, the first step should be to identify the cash flows for each period. This process is illustrated as follows:

t0:  $-20,000 \text{ shares purchased} * \$0.90 \text{ per share} = [\$18,000]$

t1:  $-50,000 \text{ shares purchased} * \$1.13 \text{ per share} ] = [\$56,500]$

t2:  $-50,000 \text{ shares purchased} * \$1.20 \text{ per share} = [\$60,000]$

t3:  $[(20,000 \text{ shares sold} * \$1.22 \text{ per share}) + (80,000 \text{ shares sold} * \$1.20) + (20,000 \text{ shares sold} * \$1.17 \text{ per share})] = \$143,800$

Now that the cash flows have been determined, incorporating this information into your calculator's cash flow worksheet and solving for IRR will yield a dollar-weighted rate of return of 4.02% for this investment.

#### **NEW QUESTION: 615**

In computing kurtosis, which of the following is true?

- I). It raises the deviation from the mean to the fourth power.
- II). The formula preserves the direction of the deviation.
- III). Kurtosis measures how clustered the values in a distribution are to the mean.

- A. I and II.
- B. I and III.
- C. I, II and III.

**Answer: B (LEAVE A REPLY)**

I is true. II is false because the fourth power of a negative number is not a negative number. III is true.

#### **NEW QUESTION: 616**

Which statement is false?

- A. Generally speaking a 60-day moving average should be smoother than a 20-day moving average.
- B. MACD is all about the convergence and divergence of the two moving averages.
- C. The put/call ratio is normally above 1.0 but below 10.0.

**Answer: C (LEAVE A REPLY)**

The put/call ratio is normally below 1.0.

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**NEW QUESTION: 617**

Duration is a measure of a bond's:

- A. liquidity risk exposure
- B. prepayment risk exposure
- C. interest rate risk exposure

**Answer: C (LEAVE A REPLY)**

Duration is an estimate of the percentage change in the bond's price in response to a 100 basis point change in required return.

**NEW QUESTION: 618**

Lee sold its headquarters building at a gain, and simultaneously leased back the building. The lease was reported as a finance lease. According to IFRS, at the time of the sale, the gain should be reported as:

- A. operating income.
- B. an extraordinary item, net of income tax.
- C. a deferred gain.

**Answer: (SHOW ANSWER)**

Gains on finance leases should be recognized immediately.

**NEW QUESTION: 619**

A call provision is

- A. the right of the underlying borrowers in a pool of loan to repay an amount in excess of the scheduled principal repayment.
- B. the right of the underlying borrowers in a pool of loan to repay an amount that represents a deficit in relation to the scheduled principal repayment.
- C. the right of the issuer to retire the issue prior to the stated maturity date.

**Answer: C (LEAVE A REPLY)**

A call provision is the right of the issuer to retire the issue prior to the stated maturity date.

**NEW QUESTION: 620**

Which one is the most likely reason for a current account surplus?

Personal consumption	\$200
Employee compensation	250
Gross private domestic investment	500
Proprietor's income	20
Government consumption	100
Government gross investment	40
Export	120
Import	90
Foreigner's income for domestic output	30
Domestic citizens' income abroad	25

- A. low private savings.
- B. low private investment.
- C. government deficit.

**Answer: B (LEAVE A REPLY)**

$$CA = Sp + Sg - I.$$

**NEW QUESTION: 621**

The Z-spread is different from the nominal spread because

- A. the Z-spread is based on a premium above the spot rates which are a period by period rate determination
- B. the Z-spread is based on direct YTM calculations
- C. the nominal spread is based on a premium above the spot rates which are a period by period rate determination

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 622**

A company signs a long-term construction contract for \$10 million. In the first Year of the contract, costs to date totaled \$4 million, of an estimated \$8 million in costs. The company received cash payments of \$7 million. The gross profit recognized in year one, under the percentage of completion method would be:

- A. \$-0-
- B. \$1 million.
- C. \$3 million.

**Answer: B (LEAVE A REPLY)**

Percentage-of-completion recognizes gross profit on a percentage basis. Since half the contract is completed (\$4 million/\$8 million), half the gross profit can be recognized. Gross profit is \$10 less estimated costs of \$8 million = \$2 million/2 = \$1 million.

**NEW QUESTION: 623**

According to the Global Investment Performance Standards (GIPS), when dealing with the integrity of data to be used for performance presentation, which of the following statements is NOT correct?

- A. The selection as to which portfolios will be included in the composite can be decided at each and every time a presentation needs to be made.
- B. The Firm is responsible for the integrity of its input data.
- C. GIPS rely on the integrity of input data.

**Answer: A (LEAVE A REPLY)**

The selection as to which portfolios will be included must be predetermined according to pre-established criteria (i.e. on an ex-ante basis). Selection for portfolios cannot be changed and amended at each time that performance is presented.

**NEW QUESTION: 624**

Investors who own the underlying commodity and enter futures contracts to sell it are referred to as?

- A. Hedgers
- B. Speculators
- C. Traders

**Answer: A (LEAVE A REPLY)**

Hedging: a process for lessening or eliminating risk by taking a position in the market opposite to your original position. For example, someone who owns wheat can sell a futures contract to protect against future price declines.

**NEW QUESTION: 625**

Which one of the following statements about material non-public information is incorrect?

- A. Restricting personal and proprietary trading will assist members in complying with the abovementioned standard of professional conduct.
- B. A member may create and use material non-public information as long as the information is either constructed together from publicly available information, or constructed together from non-material information.
- C. An analyst will violate the above mentioned standard of professional conduct if he makes use of the "mosaic theory".

**Answer: C (LEAVE A REPLY)**

Insider trading should not result when a perceptive analyst reaches a conclusion about a corporate action through analysis of public information and items of non-material non-public information (that is, a "mosaic" of information).

**NEW QUESTION: 626**

Which of the following statements is not correct?

- A. A statistic can be used to estimate a parameter.
- B. The mean obtained from a survey is a parameter.
- C. The variance of a population is a parameter.

**Answer: B (LEAVE A REPLY)**

The mean obtained from a survey is a statistic. A survey is obtained from a sample of the population. Any descriptive measure computed from a survey is a statistic and not a parameter.

**NEW QUESTION: 627**

The change in the supply of soybeans could be due to which of the following?

- I). a decrease in the price of insecticide.
  - II). improved equipment for soybean harvesting.
  - III). highly favorable weather conditions.
- A. I, II and III.
  - B. I and II.
  - C. II and III.

**Answer: (SHOW ANSWER)**

A decrease in the price of a resource used to produce a good, technological improvement, and favorable weather conditions are all causes of an increase in supply.

**NEW QUESTION: 628**

A random variable, X, has a mean of 12 and a standard deviation of 14. If another variable, Y, is defined by  $Y = 2X - 3$ , the coefficient of variation of Y is \_\_\_\_\_.

- A. 0.75
- B. 1.33
- C. 1.19

**Answer: (SHOW ANSWER)**

You should remember two important points:

Multiplying a random variable by a constant multiplies its mean and standard deviation by the same

\*

constant.

Adding a constant to a random variable increases the mean by the same constant but leaves the

\*

standard deviation unchanged.

Using these two rules, the mean of Y equals  $2 * 12 - 3 = 21$ . The standard deviation of Y equals  $2 * 14 = 28$ .

The coefficient of variation equals the ratio of the standard deviation to the mean. Thus, the coefficient of variation of Y equals  $28 / 21 = 1.33$ .

**NEW QUESTION: 629**

Every-Day Clothing had a November 1 merchandise inventory balance of \$45,000. It made purchases of \$80,000 and recorded sales of \$130,000, during November. Its estimated gross profit on sales was 25%. On November 30, the store was destroyed by fire. What was the value of the merchandise inventory loss?

- A. \$ 27,500
- B. \$125,000
- C. \$ 97,500

**Answer: A (LEAVE A REPLY)**

The cost of goods sold is equal to sales less the gross profit on sales, or \$97,500 ( $\$130,000 \times (1 - .25)$ ). The lost inventory will be estimated as inventory available at cost less the cost of goods sold.

**NEW QUESTION: 630**

Which one of the following is least likely to be a reason why the GIPS were created?

- A. Clients and prospective clients reside in different countries, and investment management firms have operations in multiple countries.
- B. Many countries have not established comprehensive investment performance standards.
- C. GIPS were established to compete with the European-based mandatory global investment performance standards.

**Answer: C (LEAVE A REPLY)**

GIPS were created to fill the void of a globally recognized investment performance standard, not to compete with European standards. There are no mandatory global standards.

**NEW QUESTION: 631**

The \_\_\_\_\_ investment strategy means the investor's objectives are to minimize the risk of loss, usually in inflation-adjusted terms.

- A. capital preservation
- B. capital appreciation
- C. total return

**Answer: A (LEAVE A REPLY)**

Generally this is a strategy for very risk-averse investors.

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**NEW QUESTION: 632**

A firm should cease to do business when:

- A. Price average variable cost
- B. Price marginal cost
- C. Price average total cost

**Answer: (SHOW ANSWER)**

A firm should cease to do business when  $P < AVC$ . In this case the company is not even making incremental revenue for each additional product sold. When  $AVC < P < ATC$ , the firm while not profitable will be making money above its variable costs. If  $P < MC$  or  $ATC < MC$ , the firm may be profitable but not maximizing profit potential.

**NEW QUESTION: 633**

Merry Luchhco Co., Corporation uses the percentage-of-completion method to recognize revenue. In

2000, Merry Luchhco Co., agreed to construct a facility at a total contract price of \$28.0 million and a total expected cost of \$24.0 million. Actual costs and cash inflow information are presented below (in \$ millions):

Particulars	1998	1999	2000
Cost incurred	4.7	9.4	9.9
Cumulative	4.7	14.1	24.0
Estimated remaining costs to complete (as of December 31)	19.3	9.9	0.00
Cash received during the year	7.50	4.50	18.00

How much income did Merry Luchhco Co., earn from the contract for years 1998, 1999, 2000 respectively?

- A. 0.2350 0.4700 0.4950
- B. 0.4700 0.9400 0.9900
- C. 0.7833 1.5667 1.6500

**Answer: C (LEAVE A REPLY)**

Cumulative Cost 1998 =  $(4.7/24.0) \times 100 = 19.5833\%$  Cumulative Revenue 1998 =  $(4.7/24.0) \times 28.0 = 5.483333$  Profit = Current Revenue - Expense = 0.783333

**NEW QUESTION: 634**

A sociologist wants to study the attitudes of American male college student toward marriage and husband-wife relations. She gives a questionnaire to 25 of the men enrolled in Sociology 101 at her college. All 25 complete and return the questionnaire. The sample in this situation is:

- A. all men taking a comparable sociology class.
- B. the 25 men who received and returned the questionnaire.

C. all the men in the Sociology 101 class.

**Answer: B (LEAVE A REPLY)**

The sample is part of the population we actually observe.

**NEW QUESTION: 635**

Economic profit is

- A. total revenue minus explicit costs.
- B. total revenue minus the total of explicit and implicit costs.
- C. total revenue minus implicit costs.

**Answer: B (LEAVE A REPLY)**

Economic profit is total revenue minus the sum of explicit and implicit costs. Thus, when economic profit is zero, firms still receive a profit to cover their implicit costs.

**NEW QUESTION: 636**

Richard Gondus purchases a bond, but is concerned about his coupon interest, reinvestment income and capital gain. What is the total cash flow return that Edward earns, assuming a price of \$816.54, coupon of 4.50%, 4.00 year maturity and a market interest rate of 10.20%?

- A. \$399.08
- B. \$250.40
- C. \$254.25

**Answer: (SHOW ANSWER)**

The total cash flow return includes the Coupon interest, Capital Gain and Reinvested Interest. This is essentially a future cash flow question.

Candidates should first determine the market interest rate and number of periods. After computing the future cash flows of a lump sum, candidates need to remember to subtract the initial purchase price to arrive at the total cash flow return. The detailed solution follows below:

Total cash flow return of \$399.08

Price of bond = \$816.54 Number of Periods =  $4.00 * 2 = 8.00$  Market interest =  $10.20\% / 2 = 5.10\%$

Solve for

Future Value = \$1,215.62 subtract the initial purchase price of \$816.54 = \$399.08

**NEW QUESTION: 637**

Toulon has an expected inflation rate of 5.35% and its neighbor Brozania has an expected inflation rate of 2.5%. Currency of Toulon

- A. will sell at a forward premium of 2.85%.
- B. will sell at forward premium of 5.35%.
- C. will sell at a forward discount of 2.85%.

**Answer: C (LEAVE A REPLY)**

As a result of relative purchasing power parity, currency of a country with higher inflation sells at a discount in the forward market. The discount equals the difference between the inflation rates of the two countries. In this case, currency of Toulon will sell at a discount of 2.85% ( $= 5.35 - 2.5$ ).

**NEW QUESTION: 638**

An investor wishes to liquidate their position in an investment company. They do so by selling their shares on the NYSE. They were most likely invested in:

- A. a hedge fund.
- B. a closed-end fund.
- C. an open-end fund.

**Answer: B (LEAVE A REPLY)**

Investors in closed-end funds liquidate their position by selling their shares in the secondary market.

**NEW QUESTION: 639**

Swimsuit Shop uses FIFO inventory method. During a time of rising prices and constant inventory level

(in terms of quantity), Swimsuit Shop would experience

- A. higher taxes.
- B. higher cash flows.
- C. higher cost of goods sold (COGS) and lower net income.

**Answer: A (LEAVE A REPLY)**

The sequence is: lower COGS --> higher net income --> higher taxes --> lower cash flows.

**NEW QUESTION: 640**

As compared to the short-run supply curve, what should the long-run supply curve look like?

- A. steeper
- B. flatter
- C. it depends on the cost structure of the industry

**Answer: (SHOW ANSWER)**

The supply curve is more elastic (flatter) in the long-run, because in the long-run, all costs are variable, so firms can modify their production facilities or enter/leave the market.

**NEW QUESTION: 641**

Which of the following statements is (are) true with respect to the impact the choice between expensing and capitalizing will have on certain financial ratios?

- I). Profit margins will be higher throughout the period for firms that capitalize certain expenditures as opposed to expensing them.
- II). Reported income tends to be more stabilized throughout the period if the capitalization method is used.
- III). Asset turnover ratios will be lower for firms that capitalize certain expenditures as opposed to expensing them.
- IV). Debt-to-equity ratios will be lower for companies that expense costs as opposed to capitalizing them.

- A. I and II.
- B. III and IV.
- C. II and III.

**Answer: (SHOW ANSWER)**

I is incorrect. It is true that in the early years, profits will be higher when certain expenses are capitalized. However, in the following years, a capitalized method would still report an annual expense; but had the items been fully expensed in the initial year, there would not have been any more recorded expenses.

IV is incorrect because firms that expense costs rather than capitalizing them, will report lower asset, and therefore, lower equity values. Consequently, the debt-to-equity ratio will be higher for a company that expenses the costs in question.

**NEW QUESTION: 642**

Under which circumstances can you trade using non-public information?

- A. The information would not significantly impact security prices if disclosed.
- B. The information has been provided by a credible source.
- C. The information will become public within 24 hours.

**Answer: A (LEAVE A REPLY)**

**NEW QUESTION: 643**

Which of the following statements about liability is false?

- A. Cash dividends should be recorded as a liability when they are declared by the board of directors.
- B. Payroll taxes withheld from employees' payroll cheques should never be recorded as a liability since the employer will eventually remit the amounts withheld to the appropriate taxing authority.
- C. A company may exclude a short-term obligation from current liabilities if the firm intends to refinance the obligation on a long-term basis and demonstrates an ability to complete the refinancing.

**Answer: B (LEAVE A REPLY)**

The definition of a liability includes payroll taxes since the company is obligated to make the payments to the Government at some point in the future, after the expenses are incurred.

**NEW QUESTION: 644**

Which of the following is correct?

- A. In a Spot market, the delivery of the good is required immediately or within a short period of time.
- B. The futures price of a commodity is higher than the spot price.
- C. Futures markets have agreements that require payment and delivery at a future date for sale of an asset at a price that will prevail in the market at the future date.

**Answer: A (LEAVE A REPLY)**

If the futures trade was done at the price that will prevail at the future date, then there would be no need to enter into the agreement today. The trade is actually done at a price agreed upon today.

The futures price of a commodity can be lower than the spot price (backwardation) for reasons such as convenience yield.

**NEW QUESTION: 645**

Gary Ply, a member of a large investment firm, has just secured a new client. In terms of CFA Institute's Standards of Professional Conduct when dealing with the procedures for compliance per

Standard III (C): Suitability, which of the following factors that need to be considered when looking at the new investors constraints?

- I). liquidity needs.
- II). time horizon.
- III). tax considerations.
- IV). proxy voting responsibilities and guidance.

A. I, II, III and IV.

B. II, III and IV.

C. I, II and III.

**Answer: A (LEAVE A REPLY)**

The following are the factors that need to be considered when looking at a new investor's constraints: liquidity needs, expected cash flows, investable funds, time horizon, tax considerations, regulatory and legal circumstances, investor preferences, circumstances and unique needs, proxy voting responsibilities and guidance.

**NEW QUESTION: 646**

A 10 year, 8% coupon bond has a price of 97.21 of 100 par. If its effective duration is 4.9 and the yields increase by 0.35%, what is the approximate percentage price change for this bond.

A. -1.72%

B. 1.72%

C. 4.9%

**Answer: A (LEAVE A REPLY)**

$\%P = D * r = -4.9 * 0.0035 = -1.72\%$ .

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**NEW QUESTION: 647**

Given the following spot rates:

The arbitrage-free value of a 3-year, 10% Treasury issue would be closet to:

- A. 94.60
- B. 95.16
- C. All on-the-run Treasuries equal 100.

**Answer: B (LEAVE A REPLY)**

Arbitrage-free value =  $5/(1.05)^1 + 5/(1.052)^2 + 5/(1.054115)^3 + 5/(1.056174)^4 + 5/(1.058303)^5 + 105/(1.060453)^6 = 95.16$

**NEW QUESTION: 648**

Which of the following statements is (are) inconsistent with the Markowitz theory of portfolio management?

- I). Investors maximize a one-period expected utility curve with inherent diminishing marginal utility of wealth.
- II). Investors use the risk measure of beta as the basis of determining risk.
- III). Investors base their investment decisions exclusively on the basis of expected risk and return.
- IV). a single asset or portfolio of assets is considered to be efficient if no available asset has a superior return for a given risk level, or lower risk given a return level.

- A. I only.
- B. II only.
- C. III and IV.

**Answer: B (LEAVE A REPLY)**

Investors use the variability of expected returns as the basis of risk. Beta is not a risk measure in the Markowitz portfolio theory. The contributions of Markowitz addressed the covariance of returns from differing investments and the value of portfolio diversification. He demonstrated how it was possible to reduce portfolio risk, as measured through variability of expected returns by investing in assets that did not move in the same direction. All of the remaining statements are true.

**NEW QUESTION: 649**

A random variable is:

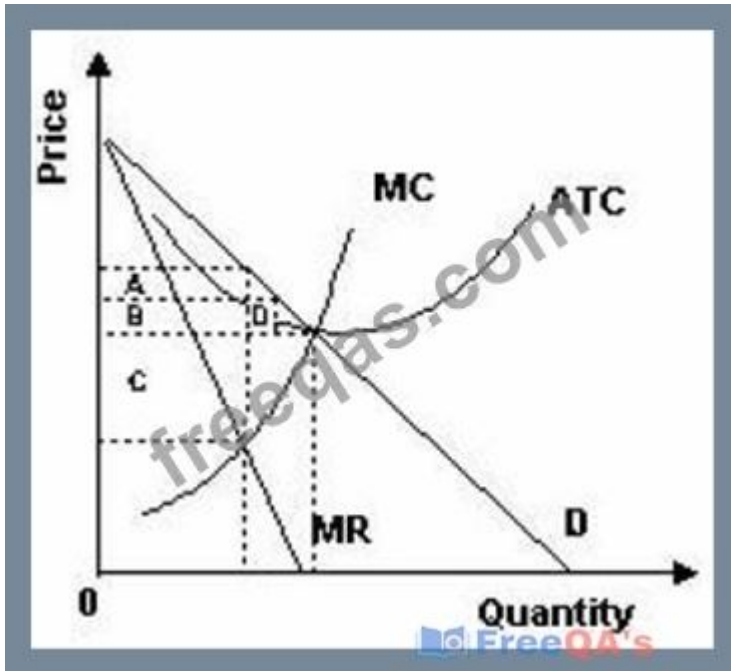
- A. a quantity whose outcome is uncertain.
- B. covers all possible outcomes.
- C. any outcome or specified set of outcomes.

**Answer: (SHOW ANSWER)**

A random variable is a quantity whose outcome is uncertain.

**NEW QUESTION: 650**

Refer to the graph below. Which rectangle represents monopolists' profit?



- A. A
- B. A + B + C
- C. C + D

**Answer: A (LEAVE A REPLY)**

Output is determined where marginal revenue equals marginal cost. Profit is determined by the rectangle created by the relevant price and average cost at that output.

**NEW QUESTION: 651**

Evans Company owns 4.5 million shares of stock of Frazier Company classified as available-for-sale.

During 2003, the fair value of those shares increased by \$9 million. What effect did this increase have on

Evans' 2003 financial statements?

- A. Net assets increased.
- B. Net income increased.
- C. Shareholders' equity decreased.

**Answer: A (LEAVE A REPLY)**

As "available for sale" securities they are reported at fair value, with unrealized gains and losses reported in shareholders' equity.

**NEW QUESTION: 652**

\_\_\_\_\_ are also known as redeemable common shares.

- A. Callable common shares.
- B. Puttable common shares.
- C. Exchangeable common shares.

**Answer: ([SHOW ANSWER](#))**

A callable stock can be recalled or redeemed by the issuer of the stock. Generally, callable stock is issued with a specific redemption price appearing in the terms and conditions of the sale.

**NEW QUESTION: 653**

Saunders, a mining analyst for Hokassen Investments, has completed his analysis of Okun Drilling &

Mining for a wealthy client of Hokassen. He has concluded that, based on core samples and geological surveys of land owned or leased by Okun, the company has in excess of 1 million ounces of gold available to mine. Saunders drafts a research report stating the following: 'Based on the fact that the company has 1 million ounces of gold to be mined, I recommend purchasing Okun stock for your portfolio.' If Saunders presents his report to the wealthy client, he will have:

- A. Violated Standard V A (Diligence and Reasonable basis) because he did not have a reasonable and adequate basis for his recommendation.
- B. Violated Standard 3 C (Suitability) because he did not indicate the basic characteristics of the investment.
- C. Complied with CFA Institute's Standards of Professional Conduct.

**Answer: A ([LEAVE A REPLY](#))**

**NEW QUESTION: 654**

Which transaction would require the recognition of deferred income tax consequences?

- I). Interest revenue on municipal bonds.
- II). Unrealized losses on temporary investments.

- A. II only.
- B. I only.
- C. None of them.

**Answer: ([SHOW ANSWER](#))**

**NEW QUESTION: 655**

If the alternative hypothesis states that  $\mu > 6,700$ , what is the rejection region for the hypothesis test?

- A. Both tails
- B. Upper tail
- C. Lower tails

**Answer: ([SHOW ANSWER](#))**

Since the alternative is that  $\mu$  is bigger than the mean, then it will be located at the upper tail.

**NEW QUESTION: 656**

The key difference between a triangle pattern and a pennant pattern is that:

- A. A pennant pattern is a special case of the triangle pattern.

**B.** A pennant always slopes in a direction opposite to the trend up to that time while a triangle can slope both ways.

**C.** A pennant is a short term formation whereas a triangle is a long-term formation.

**Answer: C (LEAVE A REPLY)**

A pennant more than 12 weeks old would turn into a symmetrical triangle.

#### **NEW QUESTION: 657**

Two normal distributions, X and Y, have means of 10% and 15% respectively. What is the mean of the following linear combination:  $2X + 3Y$ ?

**A.** 62.5%

**B.** 65%

**C.** 31.3%

**Answer: B (LEAVE A REPLY)**

Linear combination of two normal distributions is also a normal distribution. Its mean =  $2 \times 10\% + 3 \times 15\% = 65\%$ .

#### **NEW QUESTION: 658**

Which of the following statements is not true when it comes to conducting hypothesis tests about the equality of the variances of two populations?

**A.** Two distinct degrees of freedoms are used, one representing each population, in order to determine the critical value.

**B.** This type of test mandates that the underlying populations be normally distributed.

**C.** The not equal to alternative hypothesis implies that if the test statistic is greater than critical value implied by the level of significance, then the null hypothesis is rejected.

**Answer: C (LEAVE A REPLY)**

The proper distribution for such a test is an F-distribution. The not equal to alternative hypothesis implies that if the test statistic is greater than critical value implied by (the level of significance divided by two), then the null hypothesis is rejected. Remember, whenever you have a two tailed test, the level of significance must be divided in two, with the resulting numbers allocated to both tails. For instance, a 10% level of significance for a two tailed test would imply that each tail area represents 5%.

#### **NEW QUESTION: 659**

In an inverse head-and-shoulders pattern, the low price reached at the bottom of the head is \$40 and the neckline is established at \$50. The price objective for a technician would be:

**A.** \$30.

**B.** \$45.

**C.** \$60.

**Answer: C (LEAVE A REPLY)**

$50 + (50 - 40) = 60$ .

**NEW QUESTION: 660**

You are in an office in the U.S. and a colleague is trading for himself in advance of clients. You should

- A. ask your colleague for stock tips
- B. seek guidance from a supervisor or legal counsel
- C. inform a supervisor only if the trading appears profitable

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 661**

Assume that six months ago you bought 2,500 shares of a stock at \$70 per share using margin. The margin rate was 40%, and the interest rate on the margin loan was 8%. Assume no commissions. What is your gain or loss if the current stock price is \$71 per share?

- A. -\$1,700
- B. \$2,500
- C. \$6,700

**Answer: A (LEAVE A REPLY)**

Original equity = 40% of (2,500 x \$70) = (.40)(\$175,000) = \$70,000  
Original Loan = 60% of (2,500 x \$70) = (.60)(\$175,000) = \$105,000  
Interest on loan = 1/2 of 8% of \$105,000 = (1/2)(\$8,400) = \$4,200  
C I \$105 000 \$4 200 \$109 200  
Current loan = \$105,000 + \$4,200 = \$109,200  
Current Equity = (QP-L) = (2,500 x \$71 - \$109,200) = \$177,500 - \$109,200 = \$68,300  
\$ return = \$68,300 - \$70,000 = - \$1,700  
(Rate of return = -1,700/70,000= -2.43%)

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**NEW QUESTION: 662**

Consider the following:

Machinery, beginning balance \$114,000 Machinery, ending balance \$100,000 Accumulated Depreciation,

Machinery, beginning balance \$ 60,000 Accumulated Depreciation, Machinery, ending balance \$ 64,000

Depreciation expense \$ 15,000

What was the amount of cash inflow from the sale of old machinery during the year? Assume no other transactions affected the Machinery account and that the sale of the machinery did not result in a gain or loss on disposal.

- A. \$ 3,000
- B. \$14,000
- C. \$11,000

**Answer: (SHOW ANSWER)**

When machinery is removed from the ledger, the accumulated depreciation related to the machinery is debited. In this case, the debit was  $\$60,000 + \$15,000 - \$64,000 = \$11,000$ . The machinery account decreased by \$14,000 ( $\$114,000 - \$100,000$ ). The sale of the machinery involved a debit to

Accumulated Depreciation for \$11,000, a debit to Cash for \$3,000, and a credit to Machinery for \$14,000.

#### **NEW QUESTION: 663**

Which of the following is NOT a characteristic of a typical venture capital (VC) fund?

- A. Long-term nature and difficulty in valuation of portfolio companies.
- B. Ease of liquidation due to a ready market for mergers and acquisitions.
- C. Existence of time cycles in availability of VC capital.

**Answer: B (LEAVE A REPLY)**

VC funds do not have ease of liquidity when exiting an investment.

#### **NEW QUESTION: 664**

If fiscal policy is easy and monetary policy is tight,

- A. the private sector will shrink and the public sector will expand.
- B. the private sector will expand and the public sector will shrink.
- C. both will expand.

**Answer: A (LEAVE A REPLY)**

The interest rates will rise and have a negative impact on private sector. The government spending will rise as a share of GDP.

#### **NEW QUESTION: 665**

A securities analyst is preparing a list of questions to ask when paying a personal visit to a company whose stock is publicly traded. Which of the following should not be on the list?

- I). Does the company plan new financing, and if so, what kind?
- II). What do you expect earnings per share to be for the full year?
- III). Are new acquisitions being considered?
- IV). What has been the firm's ratio of debt to equity over the past three years?

- A. I and IV.
- B. IV only.
- C. II and III.

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 666**

The focus of companies during the shakeout stage should be:

- A. build scale.
- B. reduce cost structure and build brand loyalty.
- C. re-invest their cash flows in new products.

**Answer: (SHOW ANSWER)**

**NEW QUESTION: 667**

You are considering a portfolio only of long positions not involving leverage and have the following information:

Stock | Expected Return | Variance | Correlation1 | 15% | 100 |  $R_{1,2} = 0.6$   
2 | 18% | 64 |  $R_{1,3} = 0.2$  3 | 24% | 400 |  $R_{2,3} = -1.0$

Which of the following statements is supported by the above data?

- A. The highest expected return for any portfolio using these three stocks is 15%.
- B. The boundaries for expected return for any portfolio using these three stocks are from 0% to 24%.
- C. The expected return on the portfolio would be 19%, with equal weights in each of the three stocks.

**Answer: C (LEAVE A REPLY)**

$19\% = (15\% + 18\% + 24\%)/3$ .

**NEW QUESTION: 668**

In a statement of cash flows, the acquisition of land by issuing capital stock:

- A. Is shown as an investing/financing activity.
- B. Is not shown at all, since no cash was received or disbursed.
- C. Is shown in a supplementary schedule as a noncash investing and financing transaction.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 669**

The \_\_\_\_\_ is the exchange rate at which the dealer is willing to buy a currency.

- A. offer price
- B. bid price
- C. ask price

**Answer: B (LEAVE A REPLY)**

The bid price is the price that a foreign exchange dealer is willing to buy a currency; it is almost always true that the bid price will differ from the ask price which is the price that the dealer is willing to sell the currency for.

**NEW QUESTION: 670**

Interest rate risk affects the yield to maturity earned by an investor when:

- A. the bond is held to maturity and interest rates fall.
- B. the bond is sold before maturity and the interest rate is equal to the yield to maturity.
- C. the bond is sold before maturity and interest rates rise.

**Answer: C** ([LEAVE A REPLY](#))

#### **NEW QUESTION: 671**

Consider a bond that pays 10% semiannually and has 6 years to maturity. The market requires an interest rate of 12% on bonds of this risk. What is this bond's price?

- A. \$91.62
- B. \$91.77
- C. \$95.08

**Answer: (SHOW ANSWER)**

$N=12, I/Y=6, PMT=5, FV=100, PV=?=91.62$

#### **NEW QUESTION: 672**

A sample of 5 persons with hypertension underwent a special blood-pressure-reducing treatment program which resulted in the following values giving reduction in systolic blood pressure for these persons (i.e. the scores give SBP after treatment - SBP before treatment): -5, 10, 20, 5, 10. Suppose for a second sample of 5 persons, the sample mean is 10, and the sample variance is 25. Then which of the following statements about this second sample is not correct?

- A. A person with a SBP reduction of -5 units is 3 standard deviations below the sample mean.
- B. The sum of the squared deviations of SBP reduction scores from the sample mean, i.e.

2

$\text{SUM}((X - \bar{X})^2) = 100.$

- C. Any SBP reduction score between 0 and 20 is within one standard deviation of the sample mean.

**Answer: (SHOW ANSWER)**

$10 \pm \text{SQRT}(25)$  is the interval from 5 to 15.

#### **NEW QUESTION: 673**

Which statement is true?

- A. Sharpe ratio cannot be applied to risk-free assets.
- B. Portfolios with identical total risk but different systematic risk will be rated the same using Treynor ratio.
- C. M-square should give us rankings that are identical to those of the Jensen's Alpha.

**Answer: A** ([LEAVE A REPLY](#))

A is true. The zero standard deviation of such assets cannot be used as the denominator. B is false. Remember that the Treynor ratio uses beta to measure risk. C is false. M-square uses total risk while Jensen's alpha uses beta.

**NEW QUESTION: 674**

A multivariate distribution

- A. specifies the probabilities for a group of related random variables.
- B. describes a single random variable.
- C. helps investors to make risk averse decisions.

**Answer: A (LEAVE A REPLY)**

A common multivariate distribution is the multivariate normal distribution, which is a 'combination' of a number of univariate normal random variables. It is important to note that when each individual random variable is normally distributed, the multivariate distribution that comprises these individual random variables is normal as well.

**NEW QUESTION: 675**

To estimate the average weight of the red-crowned woodpecker to within 2 grams at a 95% confidence level, researchers must randomly sample how many red-crowned woodpeckers? [The population can be assumed normal with a standard deviation of 13 grams.]

- A. 282
- B. 70
- C. 163

**Answer: C (LEAVE A REPLY)**

We work with formula for E, solving it for n, the sample size. First, a 95% level of confidence, we need  $z(0.025)$ . Going to the normal table we get  $z(0.025) = 1.96$ . Now, working with the E formula we get  $n = 162.3076$ . So, the sample size needed is  $n = 163$  (if there is a decimal part, we always go to the next whole number).

$$\bar{x} - E < \mu < \bar{x} + E$$

$$E = z\left(\frac{\alpha}{2}\right) \frac{\sigma}{\sqrt{n}}$$

$$2 = z(0.025) \frac{13}{\sqrt{n}}$$

$$\frac{2}{1} = 1.96 \frac{13}{\sqrt{n}}$$

~~$$\frac{2}{1} = \frac{25.48}{\sqrt{n}}$$~~

$$2\sqrt{n} = 25.48$$

$$\sqrt{n} = 12.74$$

$$n = 162.3076$$

#### NEW QUESTION: 676

David Smith is a CFA member with supervisory responsibilities. However, due to his workload he has delegated a part of his supervisory responsibilities. What are Smith's responsibilities in terms of Standard

IV (C) - Responsibilities of supervisors?

- A. Smith no longer has any supervisory responsibility since he has delegated his responsibility.
- B. Smith may not delegate his supervisory responsibilities at all.
- C. Smith still retains responsibility for all his subordinates.

**Answer: (SHOW ANSWER)**

A supervisor may delegate his/her supervisory responsibility, however he/she still retain overall responsibility for his/her supervisory function.

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**NEW QUESTION: 677**

In which of the following market structures is collusion most likely to occur?

- A. Oligopoly.
- B. Monopolistic competition.
- C. Perfect competition.

**Answer: A (LEAVE A REPLY)**

Since there are only a few firms in an oligopoly, firms recognize their interdependence, and this gives each firm an incentive to collude with other firms in the industry.

**NEW QUESTION: 678**

Which one of the following is true?

- A. The inventory period of the operating cycle ends when the receivable it creates is actually paid by the customer.
- B. The length of the operating cycle is always greater than or equal to the length of the cash cycle.
- C. The inventory period plus the accounts receivable period is equal in length to the operating cycle plus the cash cycle.

**Answer: B (LEAVE A REPLY)**

- A). The inventory period ends when the receivable is created.
- C). The operating cycle is equal in length to the inventory period plus the accounts receivable period.

**NEW QUESTION: 679**

Which country's central bank has an explicit inflation target?

- A. Japan.
- B. United Kingdom.
- C. United States.

**Answer: (SHOW ANSWER)**

The Bank of Japan and the U.S. Fed don't have a formal inflation target.

**NEW QUESTION: 680**

Under the asset/liability method of calculating deferred tax consequences for temporary differences, deferred taxes are determined on the basis of:

- A. partial recognition of temporary differences
- B. enacted future marginal tax rates
- C. tax rates in effect when the timing differences originate

**Answer: B (LEAVE A REPLY)**

The future consequences of income tax allocation should be determined using the rates in the future when the temporary differences reverse.

**NEW QUESTION: 681**

The risk of a preferred stock is based on the:

- A. uncertainty of its dividends.
- B. uncertainty of its price.
- C. uncertainty of its total return.

**Answer: C (LEAVE A REPLY)**

The total return includes its dividends and price change.

**NEW QUESTION: 682**

Suppose a portfolio manager purchases \$2 million of par value of a Treasury inflation protection security. The real rate is 2.6%. Assume that at the end of the first six months the CPI-U is 3.2%. The inflation-adjusted principal at the end of the first six months is

- A. \$2,052,000.
- B. \$2,064,000.
- C. \$2,032,000.

**Answer: C (LEAVE A REPLY)**

The inflation adjustment to principal is  $\$2,000,000 \times 0.016 = \$32,000$ . The inflation-adjusted principal is  $\$2,000,000 + \text{the inflation adjustment to principal} = 2,000,000 + 32,000 = \$2,032,000$ .

**NEW QUESTION: 683**

In general, when the price of the underlying stock is \_\_\_\_\_ the price of a call option will \_\_\_\_\_, and the call owner will benefit.

- A. rising; rise
- B. rising; fall
- C. falling; rise

**Answer: A (LEAVE A REPLY)**

The value of a call is directly related to the underlying common stock. As the price of the stock goes up the call gains value and as the stock declines the call loses value. The call owner benefits when the price of the stock rises.

**NEW QUESTION: 684**

A company with outstanding bonds of \$100,000 retires the debt early by buying back the bonds at \$ 83,000. The impact on the cash flow statement, assuming the indirect method is used, would be:

- A. a cash outflow of \$83,000 under investing cash flows and a deduction of \$17,000 under cash flows from investing.
- B. a cash outflow of \$83,000 under cash flows from financing and a deduction of \$17,000 under cash flows from operations.
- C. a cash inflow of \$83,000 under cash flows from financing and a cash inflow of \$17,000 under cash flows from operations.

**Answer: B (LEAVE A REPLY)**

Since a gain of \$17,000 would be recognized on the income statement, it must be subtracted from cash flows from operations to zero out the effect. The entire cash outflow of \$83,000 would be reported as a cash outflow from financing.

**NEW QUESTION: 685**

Jeremy Gotes is an analyst at a large Brokerage House. Jeremy receives a call from company KLJ informing him that they are about to launch a new product that will increase sales dramatically. This news has already been presented to a group of analyst at a meeting held last week. Jeremy writes a report recommending this stock to all of his clients. Has Jeremy violated the Standards of professional conduct?

- A. Yes, because he used material non-public information.
- B. No.
- C. Yes, because he did not consult with his supervisor prior to issuing the opinion.

**Answer: (SHOW ANSWER)**

Jeremy used material non-public information.

Jeremy did not violate the Standards because he did not consult with his supervisor prior to issuing the opinion as this is not a specific violation of the Standards.

Jeremy did not violate the Standards because he should have first communicated the recommendation to the firm's larger clients ahead of the smaller clients. A member must never first communicate recommendations to the firm's larger clients ahead of the smaller clients.

**NEW QUESTION: 686**

Consider the following statement:

- I). Marginal cost is the additional cost incurred in undertaking an activity.
- II). The opportunity cost of undertaking an activity is the benefit forgone by undertaking the next best alternative.

Which one(s) is(are) true?

- A. II only.
- B. I only.
- C. I and II.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 687**

Suppose the probability that oil prices will rise any given quarter is 0.51, and the probability that oil prices will stay level or decline is 0.49. If oil prices rise, GNP will contract by 1% with 80% probability, and expand by 0.5% with 20% probability. If oil prices decline or stay level, GNP will expand 3% with a 75% probability and contract 0.5% with a 25% probability. What is the expected change in GNP in the next quarter?

- A. -0.86%
- B. +0.86%
- C. +0.68%

**Answer: C (LEAVE A REPLY)**

We need the total probability rule for expected value, for which the formula is  $E(X) = E(X | S_{-1}) * P(S_{-1}) + E(X | S_{-2}) * P(S_{-2}) + \dots + E(X | S_{-n}) * P(S_{-n})$ . Here,  $E(X)$  is the expected change in GNP.

$S_{-1}$  is the event that oil prices rise, and  $S_{-2}$  is the event that oil prices fall. Therefore,  $E(X) = 0.51$

$(-1\% * 80\% + 0.5\% * 20\%) + 0.49 * (3\% * 75\% - 0.5\% * 25\%) = 0.68\%$ , an expansion.

**NEW QUESTION: 688**

Which of the following would be an effect of capitalizing interest costs?

- I). Depreciation is understated.
  - II). Interest coverage would be understated.
  - III). Cash flows from investing are understated.
  - IV). Cash flows from operations are understated.
- A. I, II and III.  
B. III only.  
C. II and IV.

**Answer: (SHOW ANSWER)**

Depreciation is overstated (interest is included in the cost of the asset); interest coverage is overstated (interest expense is too low); and cash flows from operations are overstated (not enough interest has been deducted). Cash flows from investing are understated, as the interest expense has been included in the cost of the asset.

**NEW QUESTION: 689**

BWT, Inc. shows the following data in its financial statements at the end of the year. Assume all securities were outstanding at the beginning of the year:

6.125% convertible bond, convertible into 33 shares of common stock. Issue price \$1,000, 100

bonds outstanding.

6.25% convertible preferred stock, \$100 par, 2,315 shares outstanding. Convertible into 3.3

shares of common stock, Issue price \$100

8% convertible preferred stock, \$100 par, 2,572 shares outstanding. Convertible into 5 common

shares, Issue price \$80

9,986 warrants are outstanding with an exercise price of \$38. Each warrant is convertible into 1

share of common.

Average market price of common is \$52.00 per share.

Common shares outstanding at the beginning of the year were 40,045.

\*

Net Income for the period was \$200,000, while the tax rate was 40%.

\*

What were the preferred dividends paid this whole year?

A. 20576

B. 14469

C. 35045

**Answer: (SHOW ANSWER)**

$(.0625)(100)(2315) = 14469$   $(.08)(100)(2572) = 20576$   $14469 + 20576 = 35045$

### NEW QUESTION: 690

If a security just experienced a triple bottom pattern, its price is then expected to:

A. go up.

B. go down.

C. either go up or go down.

**Answer: (SHOW ANSWER)**

Technicians use the triple bottom to predict a change from a downtrend to an uptrend in security prices.

### NEW QUESTION: 691

In a head-and-shoulders top, the peak of the head is formed at \$50 and the neckline is established at

\$ 40. The price objective for a technician would be:

A. \$30.

B. \$40.

C. \$45.

**Answer: A (LEAVE A REPLY)**

The price objective is calculated by subtracting the price at which the pattern breaks the neckline (\$40) by the difference between the head and the neckline (\$10). Based on this example, the price objective is \$30 (\$40 - \$10). This price objective is not an absolute and is used as a guideline to the attractiveness of a trade. The larger the difference between the objective and the price at the neckline, the more worth the trade has, as it will yield greater returns.

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**NEW QUESTION: 692**

You have \$10,000 to invest. Bank A offers a 5 year, 9% CD with interest compounded annually, and

Bank B offers a 5 year, 9% CD with interest compounded monthly. Which would you prefer? Why?

- A. Choose Bank A because the FVA = \$15,386.24
- B. Choose Bank B because you will be \$270.57 better off at the end of five years.
- C. Choose Bank B because you will be \$302.23 better off at the end of five years.

**Answer: B (LEAVE A REPLY)**

5

$$FV = (\$10,000)(1.09) = \$15,386.24$$

A

60

$$FV = (\$10,000)(1.0075) = \$15,656.81$$

B

$$FV - FV = \$15,656.81 - \$15,386.24 = \$270.57$$

B A

By choosing Bank B, you will be \$270.57 better off at the end of 5 years.

**NEW QUESTION: 693**

A rental property was purchased for \$625,000 with an estimated land value of \$81,000. The purchaser had a marginal tax rate on ordinary income of 34% and faced a capital gains rate of 20%. Assuming the property is depreciated over a 27.5 year life, the after-tax cash flow resulting from the depreciation expense would be closest to:

- A. -\$15,000
- B. -\$13,056
- C. \$6,726

**Answer: C (LEAVE A REPLY)**

The depreciable basis is  $\$625,000 - \$81,000 = \$544,000$ . The annual depreciation is  $\$544,000/27.5 = \$19,782$ . The tax savings from this non-cash expense is  $.34 \times \$19,782 = \$6,726$ .

**NEW QUESTION: 694**

Use the following data from Delta's common size financial statement to answer the question:

Earnings after taxes = 18% Equity = 40% Current assets = 60% Current liabilities = 30% Sales = \$300

Total assets = \$1,400. What is Delta's total-debt-to-equity ratio?

- A. 2.5.

B. 1.5.

C. 1.0.

**Answer: B (LEAVE A REPLY)**

If equity = 40%, debt must = 60%, thus  $60/40 = 1.5$

**NEW QUESTION: 695**

On the same test, Tom scored at the 87th percentile, and Bill scored at the 73rd. This means

A. Tom is 14% better than Bill.

B. Tom scored 14 more points than Bill.

C. 14% of those taking the test got scores ranging between Tom's and Bill's.

**Answer: C (LEAVE A REPLY)**

**NEW QUESTION: 696**

Select the INCORRECT statement(s).

I). A stock dividend should decrease share price, all other things being equal.

II). A stock split should reduce the firm's P/E ratio.

A. I only.

B. II only.

C. Both I and II are incorrect.

**Answer: (SHOW ANSWER)**

A stock split will reduce the price and earnings per share proportionately, leaving the price-to-earnings ratio the same.

**NEW QUESTION: 697**

Which measure gives investors rankings that are identical to those of the Sharpe ratio?

A. Treynor ratio.

B. M-square.

C. Jensen Alpha.

**Answer: (SHOW ANSWER)**

Because M-square uses total risk but the other two measures use systematic risk.

**NEW QUESTION: 698**

Which section of the statement of cash flows represents cash generated internally?

A. operating activities

B. investing activities

C. financing activities

**Answer: A (LEAVE A REPLY)**

Cash flow from operating activities represents cash generated internally.

**NEW QUESTION: 699**

Which of the following statements is not true of futures contracts?

- A. All futures contracts are highly standardized and trade on organized exchanges.
- B. Futures contracts may be customized to meet the needs of specific parties.
- C. The clearinghouse serves to guarantee performance by the parties to a futures contract.

**Answer: B (LEAVE A REPLY)**

Customization is a characteristic of forward contracts, not futures

#### **NEW QUESTION: 700**

Under what conditions can a monopolist have potentially lower costs and possibly charge a lower price than would exist if the market were competitive?

- A. when substantial economies of scale are present
- B. when the monopolist is a profit maximizer rather than a revenue maximizer
- C. when the monopolist operates on the inelastic portion of the demand curve

**Answer: A (LEAVE A REPLY)**

When significant economies of scale are present (usually due to the presence of enormous fixed costs) it is more efficient for one firm to produce the entire industry's output because it can do so at a lower average cost than many small rival firms.

#### **NEW QUESTION: 701**

In reference to liabilities, the \_\_\_\_\_ basis of measurement means the undiscounted amount of cash or cash equivalents that would be required to settle the obligation today.

- A. Current cost.
- B. Settlement value.
- C. Present value.

**Answer: A (LEAVE A REPLY)**

On the other hand, in reference to assets, current cost is the amount of cash or cash equivalents that would have to be paid to buy the same or an equivalent asset today.

#### **NEW QUESTION: 702**

Gumbo Co. uses straight line depreciation for financial reporting and double declining balance for tax.

Using straight line the company reports tax of \$18,000; under double declining balance tax is \$14,000.

Gumbo would report a:

- A. Deferred tax asset of \$4,000.
- B. Deferred tax liability of \$4,000.
- C. Deferred tax asset of \$14,000.

**Answer: B (LEAVE A REPLY)**

#### **NEW QUESTION: 703**

A large number of competing investors is necessary for market efficiency because:

- 1). it creates independent and random price changes.

II). it results in faster price adjustment.  
III). information is more fully examined and acted upon.

- A. I and II.
- B. II and III.
- C. I, II and III.

**Answer: (SHOW ANSWER)**

Markets become efficient due to a high degree of competition in the markets. Competition is higher with more participants, who examine and act on new information. Also, a higher level of competition will result in faster decisions and therefore faster price adjustment.

#### **NEW QUESTION: 704**

A 5-year variable rate note issued by a BAA-rated issuer resets its coupon rate to 6-month LIBOR + .0075. At issuance, terms of the contract were determined so the issue would be priced at par. Three years after issue, credit conditions have changed and credit spreads have widened, i.e., the credit premiums charged lower credit quality borrowers are greater than during previous market conditions. In this new market environment:

- A. the price of the variable rate note will be greater than par
- B. the price of the variable rate note will equal par
- C. the price of the variable rate note will be less than par

**Answer: C (LEAVE A REPLY)**

The margin compensates the note owner for the credit risk associated with the issuer. If this credit risk now requires a greater premium, the fixed margin will reduce the value of the note.

#### **NEW QUESTION: 705**

Which of the following ratios would NOT be useful to evaluate a company's operating efficiency?

- A. Quick ratio.
- B. Fixed asset turnover and total asset turnover.
- C. Equity turnover.

**Answer: A (LEAVE A REPLY)**

The quick ratio = (cash + marketable securities + receivables)/current liabilities is used to evaluate a company's internal liquidity.

#### **NEW QUESTION: 706**

The amount of one good that is just sufficient to compensate the consumer for the loss of some amount of another good is called

- A. the marginal rate of substitution.
- B. consumer surplus.
- C. the substitution effect.

**Answer: A (LEAVE A REPLY)**

The marginal rate of substitution is the slope of the indifference curve and represents the amount of good x that the consumer must be compensated with in order to reduce his or her consumption of good y by one unit.

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**NEW QUESTION: 707**

Assuming everything else remains the same, when a stock goes ex-rights its price should:

- A. Remain the same
- B. Decrease
- C. Increase

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 708**

Vince Inc. changed from the double-declining balance to the straight-line method of depreciation during 20x3. Total depreciation expense for previous years under the double-declining balance method totaled \$29,000. Vince Inc. calculated that if the straight-line method had been used, depreciation would have totaled \$17,000. Vince Inc. is taxed at a rate of 34 percent. What is the cumulative effect of the accounting change that should be reported on Vince's income statement for the year ended 20x3?

- A. \$7,920
- B. \$12,000
- C. (\$12,000)

**Answer: (SHOW ANSWER)**

If the new accounting method (straight-line) had been used in previous years, Vince's total depreciation expense would have been \$12,000 lower (\$29,000 - \$17,000), and income before income taxes would have been \$12,000 higher. Therefore, the cumulative effect of accounting change that should be reported on Vince's income statement for the year ended 20x3 is a positive \$7 920 [ $\$12\ 000 \times (1 - 0.34)$ ]  
\$ 7,920 [ $\$12,000 \times (1 - 0.34)$ ].

**NEW QUESTION: 709**

The state lottery you just won will make annual payments of \$152,000 for the next twenty years. What is the present value of your prize at a discount rate of 8%?

- A. \$ 1,492,358.41
- B. \$ 1,523,323.25 C \$163451601
- C. \$ 1,634,516.01

**Answer: A (LEAVE A REPLY)**

To calculate the present value of a stream of payments use the formula:

N

$$PV = \text{Payment} * (1 - (1 / (1 + R) ) / R$$

where: N = the number of periods (payments), R = the interest rate per period.

### NEW QUESTION: 710

All short sales:

- I). deposit the proceeds in a margin account
- II). require the seller to post margin over and above the short sale proceeds
- III). are completed with no collateral contribution from the short seller

- A. I and II.
- B. I and III.
- C. I, II and III.

**Answer: A (LEAVE A REPLY)**

The proceeds of the short sale must remain with the broker in the margin account as security to repurchase the stock later. Additional margin for security against losses must be submitted by the short seller. This amount can be invested in highly liquid securities to earn a return for the investor but must be available to the broker in case of an emergency liquidation.

### NEW QUESTION: 711

Variable X is distributed normally and has a mean of 10. If the probability that an observation of X will be negative is 0.16, what is the coefficient of variation of X?

- A. 1.0
- B. 0.1
- C. 0.32

**Answer: A (LEAVE A REPLY)**

### NEW QUESTION: 712

Which of the following statement(s) is/are true?

- I). A high debt ratio indicates an extensive use of leverage.
- II). The interest coverage ratio is computed by dividing the annual operating income by the annual interest expense.
- III). The current ratio is equal to current assets divided by current liabilities.
- IV). The debt ratio shows how many times the company earns its annual interest obligations.

- A. I, II and III.
- B. I, II, III and IV.
- C. I, III and IV.

**Answer: A (LEAVE A REPLY)**

II). The interest coverage ratio expresses the ability of the business to pay the interest on debt from current income. If operating income totals \$50,000 and interest costs total \$10,000 the interest coverage ratio would be 5:1.

III). The current ratio is the most common measure of solvency.

IV). The interest coverage ratio shows how many times the company earns its annual interest obligations.

The debt ratio (total liabilities/total assets) measures the percentage of capital structure financed by creditors.

**NEW QUESTION: 713**

Cash is received for services not yet performed. This transaction affects an asset account and a(n)

A. asset account.

B. liability account.

C. revenue account.

**Answer: B (LEAVE A REPLY)**

This transaction affects an asset account and a liability account. The receipt of cash affects an asset account (Cash) and a liability account (Unearned Revenue) because payment has been received for services not yet performed.

**NEW QUESTION: 714**

The main difference between a positive and negative covenant is (are):

A. A positive covenant is one you must not do while a negative covenant must be carried out

B. A positive covenant is one you must do while a negative covenant is to limit actions the firm can take

C. Actions that you must do regularly versus periodically

**Answer: B (LEAVE A REPLY)**

**NEW QUESTION: 715**

NPV and IRR methods can give different results for independent projects due to all of the following

EXCEPT

A. differences in the timing of the cash flows.

B. differences in reinvestment rate assumptions.

C. cost of capital for the project.

**Answer: C (LEAVE A REPLY)**

Differences in the scale of the investments can be a factor too. However, cost of capital does not affect project rankings. It affects the accept or reject decision.

**NEW QUESTION: 716**

What is the area under the normal curve between  $z = 1.0$  and  $z = 2.0$ ?

- A. 0.4772
- B. 0.1359
- C. 0.7408

**Answer: (SHOW ANSWER)**

From the z-tables,  $z = 1$  is 0.3413 and  $z = 2$  is 0.4772. So the area in between is  $0.4772 - 0.3413 = 0.1359$ .

### NEW QUESTION: 717

Steve is more risk-averse than Edie. On a graph that shows Steve and Edie's indifference curves, which of the following is true? Assume that the graph shows expected return on the vertical axis and standard deviation on the horizontal axis.

- I). Steve and Edie's indifference curves might intersect.
- II) Steve's indifference curves will have flatter slopes than Edie's.
- III) Steve's indifference curves will have steeper slopes than Edie's.
- IV) Steve and Edie's indifference curves will not intersect.

- A. I and III.
- B. II and IV.
- C. I and II.

**Answer: (SHOW ANSWER)**

Although one investor's own indifference curves never intersect, different investors' indifference curves might intersect. If an investor is more risk averse, the slopes of his/her indifference curves will be steeper.

### NEW QUESTION: 718

Firms in an oligopoly are less likely to collude when:

- A. detection of cheaters is easy.
- B. market demand is relatively stable.
- C. there are more firms in the industry.

**Answer: C (LEAVE A REPLY)**

If firms can easily detect cheaters, they can retaliate and this helps maintain collusive agreements. When firms bid for contracts and those bids are closed, cheaters cannot be easily detected because the winning bid is not publicly announced. When there are more firms in the industry, the costs of forming a cartel and reaching an agreement are much higher making it less likely that the firms will collude.

### NEW QUESTION: 719

Consider a forward of 100 GOOG shares with Settlement Date of January 1, 20X6 while today is January 1, 20X2. Price of GOOG today is \$500. The 6-month discount rate is 2.5%. The stock is expected to pay a \$20 dividend every 12 months, beginning from July 1, 20X2. What should the forward price be?

- A. \$518.55
- B. \$609.20
- C. \$520.76

**Answer: C (LEAVE A REPLY)**

Forward Price =  $[(S(0) - PVD) * (1+r)^N] = (500 - 72.59) * (1.025^8)$  Where 72.59 is the discounted value of 4 yearly dividend payments.

#### NEW QUESTION: 720

Automatic stabilizers in the economy smooth business cycles by:

- A. increasing transfer payments during recessions and increasing tax collections during inflationary periods.
- B. increasing transfer payments during recessions and decreasing tax collections during inflationary periods.
- C. decreasing transfer payments during recessions and increasing tax collections during inflationary periods.

**Answer: A (LEAVE A REPLY)**

During recessions, unemployment insurance and other transfer payments increase, and thus consumption does not fall by as much. During period when income is high (and thus there are possibly inflation concerns), more taxes are collected because taxes are proportional to income. Thus consumption does not increase as much and does not put as much inflationary pressure on the economy.

#### NEW QUESTION: 721

Security X has expected return of 12% and standard deviation of 20%. Security Y has expected return of 15% and standard deviation of 27%. If the two securities have a correlation coefficient of 0.7, what is their covariance?

- A. 0.038.
- B. 0.070.
- C. 0.018.

**Answer: A (LEAVE A REPLY)**

$20\% \times 27\% \times 0.7 = 0.038.$

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**NEW QUESTION: 722**

Which of the following securities would NOT be found in a simple capital structure?

- A. 3%, \$100 par value convertible preferred.
- B. 6%, \$5000 par value general obligation bond.
- C. 8%, \$1000 par value callable mortgage bond.

**Answer:** [\(SHOW ANSWER\)](#)

A simple capital structure contains no potentially dilutive securities such as options, warrants, common stock or convertible preferred securities.

**NEW QUESTION: 723**

A 10-year, 8% coupon bond has a duration of 4.1 and a convexity measure of 168. If this bond is currently trading at 101.25 of par, what is its price value of a basis point (PVBP)?

- A. \$0.0415
- B. \$0.1325
- C. \$0.415

**Answer:** [A \(LEAVE A REPLY\)](#)

$PVBP = 0.0001 * P_0 D = 0.0001 * 101.25 * 4.1 = \$0.0415.$

**NEW QUESTION: 724**

Under a monopoly, in equilibrium

- A. the demand curve is likely to be above the average total cost curve.
- B. the demand curve is likely to be tangent to the average total cost curve.
- C. the marginal revenue curve is likely to be above the average total cost curve.

**Answer:** [A \(LEAVE A REPLY\)](#)

Under a monopoly, the demand curve is likely to be above the average total cost curve and the monopolist will earn positive economic profits.

**NEW QUESTION: 725**

An analyst has collected the following data about a firm:

Receivables turnover = 10 times Inventory turnover = 8 times Payables turnover = 12 times

What is the average receivables collection period, the average inventory processing period, and the average payables payment period respectively? (Assume 360 days in a year)

- A. 36 days: 45 days: 30 days.
- B. 45 days: 36 days: 30 days.
- C. 33 days: 30 days: 20 days.

**Answer:** [A \(LEAVE A REPLY\)](#)

Receivables collection period =  $360/10 = 36$  days Inventory processing period =  $360/8 = 45$  days

Payables payment period =  $360/12 = 30$  days

**NEW QUESTION: 726**

To test  $H(0): \mu = 20$  vs.  $H(A): \mu \neq 20$ , a sample of 400 will be taken from a large population, whose standard deviation is 5.  $H(0)$  will be rejected if  $\bar{X} \geq 20.5$  or  $\bar{X} \leq 19.5$ . The level of significance of this test is approximately:

- A. 0.05
- B. 0.02
- C. 0.10

**Answer: (SHOW ANSWER)**

Half Confidence Interval =  $Z * S/\sqrt{N}$   $.5 = Z * 5/20$   $2 = Z$  Area beyond  $Z = .023$  So for both tails the significance level used =  $.023 + .023 = .046$

**NEW QUESTION: 727**

The case that the board chair also holds the title of chief executive, from the corporate governance point of view, is:

- A. unacceptable because it is universally prohibited in all jurisdictions.
- B. acceptable because the effectiveness of the chief executive would be enhanced by his or her position as the chairperson of the board.
- C. unacceptable because combining the two positions may reduce the ability and willingness of independent board members to exercise their independent judgment.

**Answer: C (LEAVE A REPLY)**

A is incorrect because there are some jurisdictions that allow the combining of the two positions. B is incorrect because it is not the effectiveness of the chief executive that is being questioned. The main issue is whether the board's independence would be compromised.

**NEW QUESTION: 728**

You are given the following information regarding a random variable:

$X = x$	$P(x)$	$F(x)$
1	0.1	0.1
2	0.2	0.3
3	0.3	0.6
4	0.3	0.9
5	0.1	1.0

$P(1 < X \leq 5)$  is equal to:

- A. 0.1.
- B. 0.6.
- C. 0.9

**Answer: C (LEAVE A REPLY)**

$P(1 < X \leq 5)$  is equal to 0.9:  $0.2 + 0.3 + 0.3 + 0.1 = 0.9$  or  $1 - 0.1 = 0.9$ .

**NEW QUESTION: 729**

On January 2, 2002, Heather Ltd. signed a ten-year noncancelable lease for a passenger ferry. The lease stipulated annual payments of \$70,000 starting at the end of the first year, with title passing to

Heather at the expiration of the lease. Heather treated this transaction as a capital lease. The ferry has an estimated useful life of 15 years, with no residual value. Heather uses straight-line amortization for all of its capital assets. Aggregate lease payments were determined to have a present value of \$420,000, based on implicit interest of 10%.

In its 2002 income statement, what amount of amortization expense should Heather report from this lease transaction?

- A. \$46,667.
- B. \$42,000.
- C. \$28,000.

**Answer: C (LEAVE A REPLY)**

The amortization expense would be the present value of the lease divided by the estimated useful life.  $\$420,000 / 15 = \$28,000$ .

### NEW QUESTION: 730

In what sense is the mean of any distribution the "best guess" of the score of any single individual selected at random from the group?

- I). In a series of such guesses, the sum of the errors in one direction will balance the sum of the errors in the other direction.
- II). The mean score will occur more often than any other single score.
- III). The chances are 50-50 that any individual will be above or below the mean.

- A. I only.
- B. II and III.
- C. I and II.

**Answer: A (LEAVE A REPLY)**

II and III are not necessarily true with distributions other than normal distributions.

### NEW QUESTION: 731

From the perspective of all the firms in an industry, the ideal collusive agreement is identical to the:

- A. competitive equilibrium
- B. monopoly equilibrium
- C. monopolistic competition

**Answer: (SHOW ANSWER)**

The ideal collusive equilibrium is equivalent to the monopoly equilibrium.

### NEW QUESTION: 732

Which technical indicator brings together momentum and trend?

- A. Relative strength index.
- B. Stochastic oscillator.
- C. MACD

**Answer: C (LEAVE A REPLY)**

By comparing EMAs of different periods, the MACD line illustrates changes in the trend of a security. Then by comparing that difference to an average, an analyst can chart subtle shifts in the stock's trend. Therefore MACD brings together momentum and trend in one indicator.

**NEW QUESTION: 733**

In 2001, a portfolio with 6 stocks had the following total return rates in percentages: 27.98%, 44.94%, 54.53%, -52.68%, 10.21%, 0.50%. The average return rate for this portfolio was 4.92% and the standard deviation was 37.66%. How confident are you that the return rates will fall within -51.57% and 61.41%?

- A. 56%
- B. 75%
- C. 85%

**Answer: A (LEAVE A REPLY)**

-51.57% is 1.5 standard deviations below the mean and 61.41% is 1.5 standard deviations above the mean.

Therefore, we are confident that  $1 - 1/1.5^2 = 56\%$  of the return rates will fall within the specified range (Chebyshev's Inequality).

**NEW QUESTION: 734**

An automatic machine inserts mixed vegetables into a plastic bag. Past experience revealed that some packages were underweight and some were overweight, but most of them had satisfactory weight.

Weight % of Total Underweight 2.5 Satisfactory 90.0 Overweight 7.5

Three packages are selected from the food processing line. What is the probability of selecting and finding that all three of them are underweight?

- A. 0.0000156
- B. 0.075
- C. 0.0000001

**Answer: A (LEAVE A REPLY)**

$P(\text{all three underweight}) = 0.025 \times 0.025 \times 0.025 = 0.0000156$ .

**NEW QUESTION: 735**

A bell-shaped, symmetrical frequency distribution has a mean of 10. If 16% of the observations in the distribution are negative, what is the coefficient of variation of X?

- A. 0.1
- B. 1.0
- C. 10.0

**Answer: B (LEAVE A REPLY)**

The fraction of observations which are less than zero equals 16% i.e. the fraction of observations which are less than (mean - 10) equals 16% (given). Since the distribution is symmetrical about

the mean, this implies that the fraction of observations which are more than (mean + 10) also equals 16%. Thus, the fraction of the observations lying between 0 and 20 equals  $1 - 0.16 - 0.16 = 0.68$ . For a bell-shaped, symmetrical frequency distribution, 68% of the observations lie within one standard deviation of the mean. Hence, the standard deviation of the distribution equals 10. The coefficient of variation is then equal to standard deviation/mean =  $10/10 = 1$ .

**NEW QUESTION: 736**

If a closed-end mutual fund has a net asset value of \$15 and is selling at a discount:

- A. the underlying securities are worth more than \$15 per share
- B. the market price of the fund is less than \$15 per share
- C. the market price of the fund is greater than \$15 per share

**Answer: (SHOW ANSWER)**

If a closed-end fund is trading at a discount, then the market price is less than the NAV.

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**NEW QUESTION: 737**

In the presence of a risk-free security, the efficient frontier

- A. consisting of risky assets moves down parallel to itself.
- B. consisting of risky assets moves up parallel to itself.
- C. changes and is replaced by a straight line.

**Answer: (SHOW ANSWER)**

In the presence of a risky asset, the efficient frontier of risky assets is dominated by a new efficient frontier consisting of the risk-free security and the tangent portfolio found by joining the risk-free security with a point on the efficient frontier of risky securities where the line has the highest slope.

**NEW QUESTION: 738**

The \_\_\_\_\_ is the period of time required for the firm to acquire inventory, sell the finished goods, and collect the proceeds.

- A. inventory period.
- B. operating cycle.
- C. cash cycle.

**Answer: (SHOW ANSWER)**

- A). This period is not affected by the amount of time it takes to collect on a receivable.  
C). This period measures the time it takes for cash to flow in once it has flowed out of the firm.

**NEW QUESTION: 739**

The most commonly used method for appraising residential properties is:

- A. the comparative sales approach  
B. the income approach  
C. the cost approach

**Answer: A (LEAVE A REPLY)**

The most commonly used approach to appraising residential properties is the comparative sales approach.

**NEW QUESTION: 740**

When, in aggregate, people value having money now substantially more than they value having money in the future, interest rates will become \_\_\_\_\_.

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

**Answer: A (LEAVE A REPLY)**

The rates will become higher to move money from the present to the future.

**NEW QUESTION: 741**

What is the Net Asset Value of a fund that has the following information?

Total Fund Shares Outstanding: 5,325,000 Total Market Value of Fund: \$78,500,000 Portfolio Annual

Fund Expenses: \$1,850,000

- A. \$14.39  
B. \$14.74  
C. \$15.09

**Answer: (SHOW ANSWER)**

The NAV equals the total market value minus expenses divided by the number of outstanding shares. In this situation the total market value of a fund portfolio is \$78,500,000 and has \$ 1,850,000 in expenses per year. Also, assume that there are 5,325,000 shares outstanding.

Fund NAV =

$[(\text{Total Market Value of Fund Portfolio}) - (\text{Fund Expenses})] / (\text{Total Fund Shares Outstanding})$  NAV

=

$(\$78.5 - \$1.85) / 5.325 = \$14.39$

**NEW QUESTION: 742**

A firm has EBIT of \$15 million, interest expense of \$5 million, and faces a tax rate of 40 percent. There are 12 million shares outstanding. The change in EPS resulting from a 20% decrease in EBIT would be closest to:

- A. a 30% decrease.
- B. a 40% decrease.
- C. a 50% decrease.

**Answer: (SHOW ANSWER)**

The EPS is currently  $[(\$15 - \$5) \times (1 - .40)]/12 = \$0.50$  per share. If EBIT decreased to \$12 million, the EPS would be  $[(\$12 - \$5) \times (1 - .40)]/12 = \$0.35$  per share. The change in EPS would be a 30% decrease.

#### **NEW QUESTION: 743**

Which of the following measures of dispersion are based on deviations from the mean?

- I). Mean absolute deviation
- II). Standard deviation
- III). Variance

- A. I and III.
- B. II and III.
- C. I, II and III.

**Answer: C (LEAVE A REPLY)**

The formulas for all three measures are based on the deviation of the mean. Note: variance is the standard deviation squared.

#### **NEW QUESTION: 744**

The role of the IASB is to

- I). formulate international accounting standards.
- II). publicize international accounting standards.
- III). encourage observance of international accounting standards.

- A. I and III.
- B. I and II.
- C. I, II and III.

**Answer: C (LEAVE A REPLY)**

#### **NEW QUESTION: 745**

A security characteristic line graphs:

- A. Portfolio required return against beta.
- B. Portfolio excess return against the market's excess return.
- C. Portfolio required return against standard deviation.

**Answer: B (LEAVE A REPLY)**

A is SML. C is CML.

**NEW QUESTION: 746**

Option-free bonds are primarily characterized by \_\_\_\_\_ between \_\_\_\_\_ and price.

- A. a direct relationship; yield
- B. a direct relationship; maturity
- C. an inverse relationship; yield

**Answer: C** ([LEAVE A REPLY](#))

**NEW QUESTION: 747**

The time it takes an auto mechanic to replace a carburetor is known to follow a normal distribution with a mean of 53 minutes and a standard deviation of 7.5 minutes. This means that

- A. about 68% of the time it takes between 45.5 minutes and 53 minutes to replace a carburetor.
- B. about 68% of the time it takes between 53 minutes and 60.5 minutes to replace a carburetor.
- C. about 95% of the time it takes between 38 minutes and 68 minutes to replace a carburetor.

**Answer: C** ([LEAVE A REPLY](#))

95% of the observations lie within  $\mu \pm 2\sigma$  or (38,68).

**NEW QUESTION: 748**

Comparing financial measures or ratios for a company over time is an example of

- A. Common-size analysis.
- B. Cross-sectional analysis.
- C. Time-series (trend) analysis.

**Answer: C** ([LEAVE A REPLY](#))

Rule-of-thumb measure is a method used to determine whether a financial ratio is considered acceptable or not.

**NEW QUESTION: 749**

What is the modified duration on a noncallable bond with a Macaulay duration of eight years, a yield to maturity of 7%, and quarterly coupon payments?

- A. 8.09
- B. 7.93
- C. 7.86

**Answer: (SHOW ANSWER)**

Modified duration is equal to (Macaulay duration) / [1 + (current yield to maturity / number of payments in a year)]. In this question, the modified duration is  $8 / [1 + (0.07/4)] = 7.86$ .

**NEW QUESTION: 750**

A curve showing the relationship between price and the quantity of output supplied by an entire industry is a

- A. short-run supply curve.
- B. short-run marginal cost curve.

C. short-run market supply curve.

**Answer: C (LEAVE A REPLY)**

This is the definition of the short-run market supply curve.

**NEW QUESTION: 751**

Max Factoring purchased a four-year bond with an annual coupon of 9%. By how much does the bond price change if the term structure shifts up in a parallel manner by 2%? Assume a flat term structure of interest rates at 7%.

A. -\$67.74

B. \$67.74

C. -\$34.56

**Answer: A (LEAVE A REPLY)**

The bond price has to decrease if the interest rate increases since a higher discount rate has to be used to compute the present value of the bond cash flows (N=4; FV=1000; PMT=90; I/Y=7%; CPT

PV = 1067.74). The new interest rate equals the coupon rate of the bond equals the coupon rate of the bond, the bond will be priced at par value. Hence, Bond Price Change = 1000 - 1067.74 = -\$67.74.

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**NEW QUESTION: 752**

In calculating diluted earnings per share, which of the following should not be considered?

A. The amount of cash dividends declared on common shares

B. The amount of cash dividends declared on cumulative preferred shares

C. The number of common shares resulting from the assumed conversion of outstanding debentures

**Answer: A (LEAVE A REPLY)**

Dividends on common shares are never included in calculating EPS.

**NEW QUESTION: 753**

Bill lives in Montana and likes to grow zucchini. He applies fertilizer to his crop twice during the growing season and notices that the second layer of fertilizer increases his crop, but not as much as the first layer. What economic concept best explains this observation?

- A. the law of diminishing marginal utility
- B. the law of diminishing returns
- C. return equalization principle

**Answer: B (LEAVE A REPLY)**

The law of diminishing returns implies that as increasing amounts of the variable input is used, the additional output associated with one more unit of input decreases. Thus, the marginal return associated with one more unit of input declines. Thus, if output increases at a decreasing rate this implies that although output increases as another unit of input is applied, it is increasing by less and less. Thus, more and more inputs are required in order to increase output by one unit.

**NEW QUESTION: 754**

A recent increase in the supply of oranges caused the price to drop from \$5 to \$2.50 per bushel and quantity demanded to rise from 10,000 bushels to 20,000 bushels. This indicates that the price elasticity of demand for oranges in this price range is

- A. -2
- B. -0.5
- C. -1

**Answer: C (LEAVE A REPLY)**

Price elasticity is found by solving the following equation: Percent change in quantity demanded/Percent change in price:  $[(10,000-20,000)/(20,000+10,000)] / [(5-2.50)/(5+2.5)] = -1$ .

**NEW QUESTION: 755**

You are considering a portfolio only of long positions not involving leverage and have the following information:

Stock	Expected Return	Variance	Correlation
1	15%	100	R <sub>1,2</sub> = 0.6
2	18%	64	R <sub>1,3</sub> = 0.2
3	24%	400	R <sub>2,3</sub> = -1.0

Without doing any calculations, what is the correct statement about the risk of a portfolio consisting of these three stocks?

- A. The portfolio standard deviation must be between 8% and 20%.
- B. The portfolio standard deviation could be less than 8%.
- C. The portfolio standard deviation could be larger than 20%.

**Answer: B (LEAVE A REPLY)**

The portfolio's standard deviation could be less than the lowest individual security's standard deviation of 8% because the correlation coefficients are all less than +1.0.

**NEW QUESTION: 756**

When a U.S. bank buys foreign stock shares, puts them in a trust and resells trust units, the shares become known as?

- A. Foreign mutual funds.
- B. Foreign trusts.
- C. American Depository Receipts (ADR).

**Answer: C (LEAVE A REPLY)**

ADR: these securities represent the ownership interest in a foreign company's common stock. The process is as follows: The shares of the foreign company are purchased and put in trust in a foreign branch of a New York bank. The bank, in turn, receives and can issue depository receipts to the

American stockholders of the foreign firm. These ADRs (depository receipts) allow foreign shares to be traded in the United States much like any other security. Through ADRs, one can purchase the stock of

Sony Corporation, Honda Motor Co., Ltd., and hundreds of other foreign corporations.

**NEW QUESTION: 757**

A 30-year, semi-annual pay, 5% coupon bond is priced at par. A bond valuation model indicates that a

100 basis point increase in required return will produce a price of \$861.62, and a 100 basis point decline in required return will produce a price of \$1,173.80. The duration of this bond is:

A. 3.15

B. 7.80

C. 15.61

**Answer: C (LEAVE A REPLY)**

$(1173.80 - 861.62) / (2 \times 1000 \times 0.01) = 15.61$

**NEW QUESTION: 758**

If a 20-day moving average is crossing from above a 60-day moving average, the movement is known as a:

A. dead cross.

B. good cross.

C. golden cross.

**Answer: A (LEAVE A REPLY)**

When a short-term moving average crosses from above a longer-term moving average it is called a dead cross.

**NEW QUESTION: 759**

Which type of preferred shares is the least risky?

A. normal preferred shares.

B. puttable preferred shares.

C. callable preferred shares.

**Answer: B (LEAVE A REPLY)**

The pre-determined price is the minimum price investors will receive, reducing the uncertainty associated with the security's future cash flows.

**NEW QUESTION: 760**

Which one of the following is least likely to be an ethical action by a board member?

- A. Align their interests to those of the shareowners, for example by being investors themselves.
- B. Avoid conflicts of interest with their position as a board member.
- C. Have strong connections with the governments in the countries the company operates in.

**Answer: C (LEAVE A REPLY)**

It might involve some kind of political favor that would not necessarily benefit the long-term interests of the shareholders.

#### **NEW QUESTION: 761**

For an inferior good:

- A. The price elasticity of demand is negative; the income elasticity of demand is negative.
- B. The price elasticity of demand is positive; the income elasticity of demand is negative.
- C. The price elasticity of demand is negative; the income elasticity of demand is positive.

**Answer: A (LEAVE A REPLY)**

For an inferior good demand falls as income increases; the quantity demanded falls as price increases; this means the income elasticity and the price elasticity will both be negative.

#### **NEW QUESTION: 762**

Under which cost flow assumption is the ending inventory composed of the most recently purchased merchandise?

- A. FIFO
- B. LIFO
- C. Average Cost

**Answer: A (LEAVE A REPLY)**

Under the FIFO (First-In, First-Out) cost flow assumption, the inventory on hand is considered to be composed of the most recent items purchased.

#### **NEW QUESTION: 763**

Which of the following would be a circumstance that would lead to the impairment of a long-term asset?

- A. any change in the legal or business environment
- B. significant decreases in the market value of the asset
- C. current period operating or cash flows that are smaller than the previous periods

**Answer: (SHOW ANSWER)**

Significant decreases in the market value of the asset will lead to an impairment of that asset and must be written down.

#### **NEW QUESTION: 764**

In terms of CFA Institute's Standards of Professional Conduct when dealing with the procedures for compliance per Standard IV A (Loyalty), which of the following are activities that might constitute a violation of the duty to the employer:

- I). misappropriation of trade secrets.
- II). conspiracy to bring about the resignation of other employees.
- III). misuse of confidential information.
- IV). misappropriation of client lists.

A. II, III and IV.

B. All of the above.

C. I, II and III.

**Answer: (SHOW ANSWER)**

### NEW QUESTION: 765

Sixty percent of the customers of a fast food chain order the Whopper, fries and a drink. If a random sample of 15 cash register receipts is selected, what is the probability that 10 or more will show that the above three food items were ordered?

A. 0.403

B. 0.186

C. None of these answers

**Answer: A (LEAVE A REPLY)**

This is a binomial probability. The probability of getting  $r$  successes out of  $n$  trials where the probability of success each trial is  $p$  and probability of failure each trial is  $q$  (where  $q = 1-p$ ) is given by:

$r \binom{n-r}{r}$

$n! \binom{p}{r} \binom{q}{n-r} / r!(n-r)!$  Therefore, we need to find out the probability of getting 10, 11, 12, 13, 14, 15 successes and add them up. Here  $n=15$ ,  $p=0.6$  and  $q=0.4$ .  $r$  changes from 10 to 15.

10 5

$$p(10 \text{ successes}) = 15! \binom{0.6}{10} \binom{0.4}{5} / 10!(15-10)! = 0.1859$$

11 4

$$p(11 \text{ successes}) = 15! \binom{0.6}{11} \binom{0.4}{4} / 11!(15-11)! = 0.1268$$

$$p(12 \text{ successes}) = 0.0634$$

$$p(13 \text{ successes}) = 0.0219$$

$$p(14 \text{ successes}) = 0.0047$$

$$p(15 \text{ successes}) = 0.00047$$

The sum of all the probabilities is 0.403.

### NEW QUESTION: 766

Which of the following statements is (are) true with respect to the nature of bonds?

I). For premium bonds, its yield to maturity is always lower than its current yield.

II). For discount bonds, the duration equals the maturity of the bond.

III). Since longer term interest rates are more stable than shorter term interest rates, longer term bonds are less price sensitive than shorter term bonds.

IV). Not even U.S. government bonds are immune from interest rate risk.

A. I and IV.

B. II and III.

C. I, II, III and IV.

**Answer: A (LEAVE A REPLY)**

I is true: the reason a bond trades above par is because it is paying a coupon rate that is greater than what the market requires (which is represented through yield to maturity).

II is incorrect because the only instance where the bond duration equals its maturity is if the bond is a zero coupon bond, an extreme form of a discount bond.

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**NEW QUESTION: 767**

An example of risk-free lending is:

A. purchasing T-bills.

B. getting a margin loan from a stock broker.

C. keeping currency in a wall safe.

**Answer: A (LEAVE A REPLY)**

Purchasing T-bills is effectively lending the U.S. government money, which is riskless due to the ability of the government to always pay off its loans - at least nominally.

**NEW QUESTION: 768**

A recession is likely to occur if there is a:

A. unanticipated decrease in aggregate demand and supply.

B. unanticipated decrease in aggregate demand but increased (unplanned) supply.

C. decrease in demand (no matter it is anticipated or not) only.

**Answer: (SHOW ANSWER)**

Recession occur because prices in the goods and services market are low relative to costs of production. Two reasons are:

unanticipated reduction in aggregate demand and unfavorable supply shocks.

**NEW QUESTION: 769**

A portfolio manager has identified three asset classes, with 7, 9 and 6 securities respectively. He wants to put together a portfolio of three securities, with no more than one security from each asset class.

In how many ways can she achieve this?

- A. 22
- B. 96
- C. 378

**Answer:** ([SHOW ANSWER](#))

This requires the multiplication rule of counting. No. of ways a portfolio can be created =  $7 \times 9 \times 6 = 378$

**NEW QUESTION: 770**

When the average loss is zero, RSI becomes:

- A. zero.
- B. 50.
- C. 100.

**Answer:** C ([LEAVE A REPLY](#))

A "divide by zero" situation occurs for RS and RSI is set to 100 by definition. Assuming a 14-period RSI, this means prices moved higher or remained the same all 14 periods. There were no losses to measure.

**NEW QUESTION: 771**

Financial statements are an input into which step in the financial statement analysis framework?

- A. Collect data.
- B. Process data.
- C. Analyze/interpret the processed data.

**Answer:** A ([LEAVE A REPLY](#))

Sources of information for this step are financial statements, economic and industry data, interviews, etc.

**NEW QUESTION: 772**

If an experiment results in one of two dichotomous responses, the variable is defined as a

- A. continuous random variable.
- B. binomial random variable.
- C. discrete random variable.

**Answer:** ([SHOW ANSWER](#))

**NEW QUESTION: 773**

The crowding-out model implies that budget deficit will

- A. cause inflation.
- B. increase the real interest rate.
- C. reduce supply.

**Answer:** B ([LEAVE A REPLY](#))

Crowding-out effect refers to a reduction in private spending due to higher real interest rate generated by government borrowing. The model does not imply anything about inflation, supply or resource prices.

**NEW QUESTION: 774**

A zero-coupon bond requires a 5% rate of return and has 4 years remaining to maturity. What should this bond sell for?

- A. \$82.08
- B. \$82.27
- C. \$90.60

**Answer: A (LEAVE A REPLY)**

$N=8, I/Y=2.5, PMT=0, FV=100, PV=?=82.08$

**NEW QUESTION: 775**

A share of preferred stock pays a specific dividend on a specific schedule for as long as the issuing company exists. Assume that a share of preferred stock pays an annual, per-share, dividend of \$6.75 at the end of each year. The (present) value of this share of preferred stock is \$75.62. Assume that the company paying the dividends will exist forever. What interest rate or rate of return do this dividend and price represent?

- A. 11.20%
- B. 9.75%
- C. 8.92%

**Answer: C (LEAVE A REPLY)**

$r = A/PV$

**NEW QUESTION: 776**

Frequency distributions are useful for ALL BUT which of the following objectives?

- A. Investigation of characteristics of each observation.
- B. Summarization of data.
- C. Condensation of large sets into smaller sets.

**Answer: (SHOW ANSWER)**

They are useful in illustration of the amount of variability in data as well.

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