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Question: 1

Which is closest to the total return on a share of stock that was purchased at \$10.10, paid \$3.20 in dividends, and sold at \$12.40?

- A. 54.46%
- B. 32.00%
- C. 22.77%

Answer: A

Explanation:

Correct answer: 54.46%

The total return includes the gain on sale + the dividends: $(\$12.40 - \$10.10 + \$3.20) / \$10.10 = 54.46\%$.

Question: 2

Which of the following statements is most true regarding futures contracts?

- A. Futures contracts tend to be illiquid.
- B. Futures contracts face counterparty risk.
- C. A futures contract is a standardized forward contract.

Answer: C

Explanation:

Correct answer: A futures contract is a standardized forward contract.

A futures contract is a standardized forward contract that is sold through a clearinghouse, which makes futures contracts fairly liquid and minimizes counterparty risk since the clearinghouse is essentially the buyer and seller of every futures contract, effectively guaranteeing the contract values.

Question: 3

If an investor is focusing on past trading volumes and prices to try to predict future pricing, which type of investing are they most closely engaged in?

- A. Technical analysis
- B. Intrinsic value analysis
- C. Fundamental analysis

Answer: A

Explanation:

Correct answer: Technical analysis

Technical analysis is the analytical process where investors seek to profit by analyzing past prices and trading volumes for patterns to try to predict future returns. Fundamental analysis uses a variety of public information about the company to create forecasts to estimate the security's intrinsic value.

Question: 4

Which of the following most directly generates the funds to repay the holders of securitized debt?

- A. Securitized assets
- B. Asset-backed securities
- C. Special purpose entities

Answer: A

Explanation:

Correct answer: Securitized assets

Securitized assets are the actual cash-generating assets.

Asset-backed securities are the debt instruments backed by securitized assets.

Special purpose entities are the entities set up to hold the securitized assets and administer payments.

Question: 5

Which of the following statements regarding contango is true?

- A. Contango generally occurs when the convenience yield is high.
- B. Contango generally occurs when there is little to no convenience yield.
- C. Contango is when futures prices are lower than the spot price.

Answer: B

Explanation:

Correct answer: Contango generally occurs when there is little to no convenience yield.

Contango is when the futures price is higher than the spot price and generally occurs when there is little to no convenience yield.

Question: 6

What can be deduced from a Herfindahl-Hirschman index of 1?

- A. The industry is very competitive.
- B. The industry is highly cyclical.
- C. The industry is a monopoly.

Answer: C

Explanation:

Correct answer: The industry is a monopoly.

The Herfindahl-Hirschman index is a measure of market concentration, and an index of 1 indicates that there is only one player, which would be a monopoly. It is calculated as the sum of squares of competitor market shares, so it would be 0.5 for 2 players with equal shares of the market, 0.33 for 3 players with equal shares, and so on.

Question: 7

Which of the following is not a typical beneficial characteristic of alternative investments?

- A. Diversification benefits
- B. Higher potential returns
- C. Increased liquidity

Answer: C

Explanation:

Correct answer: Increased liquidity

Alternative assets can provide diversification benefits and higher returns potential, but they tend to be less liquid than traditional investments.

Question: 8

Which of the following statements is most true regarding situational influences?

- A. Situational influences induce people to behave unethically in situations where they might have otherwise behaved more ethically.
- B. Situational influences are typically very obvious, so it is not hard to avoid their influence.
- C. Situational influences are external factors that shape thinking, decision making, and behavior.

Answer: C

Explanation:

Correct answer: Situational influences are external factors that shape thinking, decision making, and behavior.

Situational influences are defined as external factors, such as environmental or cultural elements, that shape our thinking, decision making, and behavior.

Situational influences may induce people to behave unethically in situations where they might have otherwise behaved more ethically, but this is not always the case. Situational influences can have a minimal impact, or even a positive one, and are not always negative.

People are generally unaware of the impact that situational influences have on their decision making unless they make a conscious effort to combat these influences.

Question: 9

From an issuer's perspective, which is riskier: debt or equity issuance?

- A. Equity
- B. Debt
- C. They are both the same.

Answer: B

Explanation:

Correct answer: Debt

Debt issuance is riskier from the perspective of the issuer because debt requires the firm to make payments to the debtholders, whereas payments to equityholders are at the firm's discretion. Also, debtholders have the legal standing to force the firm into bankruptcy or liquidation if promised payments are not made on time, whereas equityholders do not have any such rights.

Question: 10

If a convertible bond with a par value of \$1,000 pays a 7% coupon and has a conversion price of \$25, which number represents the conversion ratio?

- A. 25
- B. 40
- C. 70

Answer: B

Explanation:

Correct answer: 40

The conversion ratio is the number of shares that a bond may be converted into. It is the par value decided by the price per share: $\$1,000 / \$25 = 40:1$, or 40 shares.

\$70 would be the annual interest payment(s).

\$25 is the price per share that the bondholder would effectively be paying per share to convert the bond into equity.

Question: 11

Which of the following statements is least correct?

- A. Some legal behavior may be unethical.
- B. Ethical and legal behavior are the same.
- C. Some ethical behavior may be illegal.

Answer: B

Explanation:

Correct answer: Ethical and legal behavior are the same.

Ethical and legal behavior are often in line, but not always. Some behavior considered ethical may be illegal. For example, protesting may be ethical, but it is not legal in all regions. Some legal behavior may be unethical. For example, insider trading is not illegal in some regions, but the CFA Institute considers it unethical.

Question: 12

Collusion to match prices is most likely to be found in which type of market structure?

- A. Oligopoly
- B. Monopolistic competition
- C. Monopoly

Answer: A

Explanation:

Correct answer: Oligopoly

In an oligopoly, there are only a few sellers, so there is an incentive and the ability to collude. In a monopoly, there is only one seller, so there is no one to collude with. In monopolistic competition, there are many sellers, so collusion is less likely to be possible.

Question: 13

Which of the following statements is most true?

- A. The CFA has several sanctions it can impose on CFA members found to have violated the Code and Standards, up to and including revocation of the CFA charter.

- B. In the event a CFA charterholder is found in violation of the code and standards, s/he may lose the right to use the CFA designation, but no public announcement may be made.
- C. Candidates enrolled in the CFA program can not be subject to sanctions imposed by the CFA Institute, because only active CFA charterholders should be expected to know the entirety of the Code and Standards.

Answer: A

Explanation:

Correct answer: The CFA has several sanctions it can impose on CFA members found to have violated the Code and Standards, up to and including revocation of the CFA charter.

Both Candidates and CFA charterholders are bound by the Code and Standards. There is no prohibition of public censure. Public censure is explicitly noted as a potential sanction.

Question: 14

Which type of efficient market would someone trying to profit off of insider information most likely try to avoid?

- A. Semi-strong-form
- B. Weak-form
- C. Strong-form

Answer: C

Explanation:

Correct answer: Strong-form

Prices in strong-form efficient markets reflect all relevant information, both public and private, so the investor above would not be able to benefit from insider information. Weak-form market prices reflect all past market data and prices in semi-strong-form markets reflect all public data, so this investor could benefit from private knowledge in these types of markets since most of those market participants would have less information than the investor.

Question: 15

Consider a business without any fixed costs and where all of its variable unit costs remain the same at any quantity except for Input X. The business must buy Input X in multiples of 500. 500 units of Input X cost \$800, 1,000 units for \$1,500, 1,500 units for \$2,100, or 2,000 units for \$2,900 per order. The business cannot buy more than 2,000 units per order.

Which of the following best describes the situation with Input X?

- A. Economies of scale
- B. Diseconomies of scale
- C. Economies of scale and diseconomies of scale

Answer: C

Explanation:

Correct answer: Economies of scale and diseconomies of scale

First, the price per unit decreases with increases in quantity ordered: $\$800 / 500 = \1.60 , $\$1,500 / 1,000 = \1.50 , $\$2,100 / 1,500 = \1.40 , indicating economies of scale. But then, at 2,000 units, the per unit cost increases: $\$2,900 / 2,000 = \1.45 , which represents diseconomies of scale. This can happen when there are supply constraints.

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