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1. Under the CFA Institute Code of Ethics, members are required to act with which quality toward clients, employers, and the public?

- A. Integrity, competence, and diligence
- B. Loyalty only to the employer that pays them
- C. Maximum short-term profit
- D. Strict confidentiality even from regulators

2. You invest 1,000 today at an annual rate of 5% compounded annually. What is the value after 2 years?

- A. 1,102.50
- B. 1,100.00
- C. 1,050.00
- D. 1,025.00

3. Holding other factors constant, an increase in the price of a normal good typically causes the quantity demanded to:

- A. Decrease
- B. Increase
- C. Stay constant
- D. Become zero

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4. Which financial statement reports a company's revenues and expenses over a period of time?

- A. The balance sheet
- B. The statement of cash flows from financing
- C. The notes only
- D. The income statement



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5. Which group is considered a primary stakeholder of a corporation?

- A. Competitors
- B. Unrelated foreign governments
- C. The general public only
- D. Shareholders and creditors

6. A market in which newly issued securities are sold to investors for the first time is the:

- A. Secondary market
- B. Derivatives market
- C. Money market only
- D. Primary market

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7. The coupon rate of a bond determines the:

- A. Market price at issuance only
- B. Bond's credit rating
- C. Time to maturity
- D. Periodic interest payments relative to par value

8. A derivative is best defined as a financial instrument whose value is:

- A. Independent of any other asset
- B. Always equal to par
- C. Set by the government
- D. Derived from the value of an underlying asset or rate

9. The portfolio perspective emphasizes evaluating an investment based on its:

- A. Standalone return only
- B. Past performance only
- C. Name recognition
- D. Contribution to the risk and return of the overall portfolio

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10. Janis David, the head of the research department at BAW, Inc., a brokerage firm, has decided to change her recommendation for Cooper & Ginto Mines from sell to buy. Before preparing and distributing a report to all customers, she verbally informs the other executives at the firm. These actions are consistent with the firm's policy. Following this, Roger Little, a junior analyst at BAW, immediately purchases Cooper & Ginto stock for himself and discloses this information to some of his contacts who are also clients of BAW, but only when it is appropriate. Janis David violated the CFA Institute Standards of Professional Conduct related to _____.

- A. Additional Compensation Arrangements.
- B. Loyalty.
- C. Responsibilities of Supervisors.

11. Analyst 1: A credit derivative is a derivative contract in which the seller protects the buyer against the credit risk of a third party. Analyst 2: A credit derivative is a derivative contract in which the exchange provides a credit guarantee to both the buyer and the seller. Choose the most likely CORRECT analyst's statement.

- A. Analyst 2.
- B. Neither of them.
- C. Analyst 1.

12. Which is LEAST likely to be a primary motivation for investing in real estate?

- A. Potential for competitive long term total returns.
- B. Potential to provide an inflation hedge.
- C. Potential to avoid government regulations.

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13. Jim has collected the following details about a stock: - Current price per share: $\backslash(\$54.00)$ - Current annual dividend per share: $\backslash(\$2.50)$ - Annual dividend growth rate for Years 1-4: 12% - Annual dividend growth rate for Years 5+: 6% - Required rate of return: 15% Using the Dividend Discount Model (DDM), the stock is most likely is _____.

- A. Overvalued.
- B. Fairly valued.
- C. Undervalued.



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14. An analyst learns that a new securities regulation in her country is less strict than the relevant CFA Institute Standard. Which must she follow?

- A. The local law, because law always governs
- B. The CFA Institute Standard, because it is stricter
- C. Whichever is less strict
- D. Neither, since they conflict

15. What is the present value of 1,500 to be received in 3 years if the discount rate is 8% compounded annually?

- A. 1,380.00
- B. 1,190.75
- C. 1,388.89
- D. 1,250.00

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16. If a 10% increase in price reduces quantity demanded by 5%, the price elasticity of demand is:

- A. -2.0 (elastic)
- B. -0.5 (inelastic)
- C. -1.0 (unit elastic)
- D. +0.5

17. The fundamental accounting equation states that assets equal:

- A. Liabilities plus owners' equity
- B. Liabilities minus equity
- C. Revenue minus expenses
- D. Cash plus inventory

18. The agency conflict between managers and shareholders arises because:

- A. Managers may pursue their own interests rather than maximizing shareholder value
- B. Managers always own all the shares
- C. Shareholders run daily operations
- D. Creditors control the board

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19. A limit order to buy is an instruction to purchase a security at:

- A. A specified price or lower
- B. The current market price immediately
- C. Any price above the limit
- D. The closing price only

20. The relationship between a bond's price and its yield to maturity is:

- A. Inverse
- B. Directly proportional
- C. Unrelated
- D. Always linear and positive

21. A forward contract obligates the buyer to:

- A. Purchase the underlying asset at a set price on a future date
- B. Have the option to purchase the asset
- C. Sell the asset immediately
- D. Pay only if prices rise

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22. Diversification reduces portfolio risk most effectively when assets have:

- A. Low or negative correlation with one another
- B. High positive correlation
- C. A correlation of exactly +1
- D. Identical returns



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23. Kayla Donovan, a CFA charterholder, serves as a portfolio manager at MacBrady Securities & Co. Some of her affluent and large clients hold long positions in Swift Delivery, a courier service. After conducting her analysis using research reports from her company, information available on internet sites, and Swift's company website, Donovan concludes that the stock is expected to experience a significant increase due to strong quarter-end earnings that will be announced in a few days. She informs all of MacBrady's clients, as some of them will benefit from having this information ahead of time. Donovan also operates a well-known blog as an independent analyst. She has obtained approval from her employer to run the blog and openly shares her predictions about various stocks, including observations about Swift's stock. She discloses her blog to her clients, who regularly visit it. Has Donovan violated any CFA Institute Standards of Professional Conduct?

- A. Yes, relating to Market Manipulation.
- B. Yes, relating to Priority of Transactions.
- C. No.

24. When is the price of a forward contract determined?

- A. At the expiration of the contract.
- B. During the period of the contract
- C. At the initiation of the contract.

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25. Two analysts are discussing the benefits of investing in commodities Analyst 1 says: commodity prices have historically been correlated with inflation and hence provide a good inflation hedge. Analyst 2 says: commodity prices are linked to economic growth. Choose the most likely CORRECT statement.

- A. Only Analyst 1 is correct.
- B. Only Analyst 2 is correct.
- C. Both analysts are correct.

26. Which act most clearly violates Standard I(D) Misconduct?

- A. Disagreeing publicly with a colleague's stock recommendation
- B. Declining an assignment outside one's expertise
- C. Being convicted of a crime involving fraud and dishonesty
- D. Reporting a supervisor's violation to compliance



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27. What is the present value of an ordinary annuity paying 200 per year for 5 years at a 6% discount rate?

- A. 1,000.00
- B. 1,127.05
- C. 842.47
- D. 890.50

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28. When demand is elastic (absolute value of elasticity greater than 1), a price increase will cause total revenue to:

- A. Increase
- B. Stay constant
- C. Decrease
- D. Double

29. Under accrual accounting, revenue is recognized when:

- A. Cash is received
- B. It is earned, regardless of when cash is received
- C. The fiscal year ends
- D. Dividends are paid

30. Strong corporate governance most likely includes:

- A. A board fully composed of executives
- B. An independent board that monitors management on behalf of shareholders
- C. No external audits
- D. Unlimited executive pay with no oversight



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Answer Key & Explanations

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1. A — Integrity, competence, and diligence

The Code of Ethics requires members to act with integrity, competence, diligence, and respect, placing the integrity of the profession and the interests of clients above their own personal interests.

2. A — 1,102.50

$FV = 1,000 \times (1.05)^2 = 1,000 \times 1.1025 = 1,102.50$. Compounding earns interest on previously accrued interest.

3. A — Decrease

The law of demand states that, all else equal, quantity demanded falls as price rises, producing a downward-sloping demand curve.

4. D — The income statement

The income statement (statement of profit or loss) reports revenues, expenses, and resulting net income over a reporting period.

5. D — Shareholders and creditors

Primary stakeholders include shareholders, creditors, employees, customers, and suppliers, those with a direct economic interest in the firm's operations and outcomes.

6. D — Primary market

The primary market is where issuers sell new securities (e.g., IPOs) and receive the proceeds; subsequent trading among investors occurs in the secondary market.

7. D — Periodic interest payments relative to par value

The coupon rate, applied to the bond's par (face) value, sets the fixed periodic interest payments the issuer promises to pay bondholders.

8. D — Derived from the value of an underlying asset or rate

A derivative derives its value from an underlying asset, index, or rate, such as a stock, commodity, interest rate, or currency.

9. D — Contribution to the risk and return of the overall portfolio

The portfolio perspective assesses each asset by its marginal contribution to total portfolio risk and return, not in isolation, highlighting diversification benefits.

10. C — Responsibilities of Supervisors.

Janis David has likely violated the CFA Institute Standards of Professional Conduct related to Responsibilities of Supervisors. As the head of the research department, David has a responsibility to ensure that material non-public information is properly handled, and that includes maintaining confidentiality until the information is made available to all customers in a fair and timely manner. By orally disclosing the revised recommendation to select executives before the report is prepared and distributed, David has failed to fulfill her responsibility as



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a supervisor to ensure fair and equitable dissemination of information. This could potentially lead to unfair advantages or conflicts of interest, as demonstrated by Roger Little's immediate purchase of the stock based on this non-public information.

11. C — Analyst 1.

In credit derivatives, one party (the seller or protection seller) agrees to compensate the other party (the buyer or protection buyer) in the event of a credit event or default by a specified third party, such as a borrower or issuer of debt.

12. C — Potential to avoid government regulations.

While real estate investments may offer various advantages, such as the potential for competitive long-term total returns and acting as an inflation hedge, the notion of investing in real estate primarily to circumvent government regulations is less likely. Real estate investments are subject to numerous government regulations, including zoning laws, building codes, and property taxes. Investors typically consider real estate for its income potential, long-term growth, diversification benefits, and potential tax advantages, rather than as a means to avoid government regulations.

13. C — Undervalued.

$(D_1 = 2.50(1.12) = 2.80)$ $(D_2 = 2.50(1.12)^2 = 3.14)$ $(D_3 = 2.50(1.12)^3 = 3.51)$ $(D_4 = 2.50(1.12)^4 = 3.93)$ Since (D_4) will grow at 6 and the required return is 15, the value at time 4 can be calculated at $(\{3.93 * 1.06\}) = 46.28$. Combining this value at time 4 with the dividend at the end of 4 years, we have a total of 50.21. We can now enter the following cash flows: $C01 = 2.80$, $C02 = 3.14$, $C03 = 3.51$, $C04 = 50.21$. For a discount rate of 15%, the present value is $(\$35.82)$. Since the market price of $(\$54)$ is much higher, the share is overvalued.

14. B — The CFA Institute Standard, because it is stricter

Standard I(A) requires members to comply with the more strict of applicable law or the Code and Standards. When the Standard is stricter than local law, the member must adhere to the Standard.

15. B — 1,190.75

$PV = 1,500 / (1.08)^3 = 1,500 / 1.259712 = 1,190.75$. Discounting reverses compounding.

16. B — -0.5 (inelastic)

Elasticity = %change in quantity / %change in price = $-5\%/10\% = -0.5$. An absolute value below 1 indicates inelastic demand.

17. A — Liabilities plus owners' equity

Assets = Liabilities + Owners' Equity. The balance sheet must balance because assets are financed by either creditors or owners.

18. A — Managers may pursue their own interests rather than maximizing shareholder value

The principal-agent problem occurs when managers (agents) may act in their own interest, for example through excessive perquisites or empire-building, rather than maximizing owner (principal) wealth.

19. A — A specified price or lower

A buy limit order executes only at the limit price or lower, giving price protection but no guarantee of execution if the market does not reach that price.



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**20. A — Inverse**

Bond prices and yields move inversely: when market yields rise, the present value of fixed future cash flows falls, lowering the bond's price, and vice versa.

21. A — Purchase the underlying asset at a set price on a future date

A forward is a firm commitment in which the buyer (long) must purchase, and the seller (short) must deliver, the underlying at a predetermined price on a specified future date.

22. A — Low or negative correlation with one another

Combining assets that are not perfectly positively correlated reduces overall portfolio volatility; the lower the correlation, the greater the diversification benefit.

23. C — No.

Kayla Donovan has not violated any CFA Institute Standards of Professional Conduct in this scenario. The relevant standards have been adhered to. Donovan has not engaged in market manipulation. She arrived at her conclusion about Swift's stock based on her own analysis of research reports, publicly available information, and Swift's company website. She did not engage in any deceptive or manipulative practices to artificially influence the stock price. There is no violation of the priority of transactions standard. Donovan notified all of MacBrady's clients about her analysis and the expected earnings report, ensuring equal treatment and not favoring any specific clients over others.

24. C — At the initiation of the contract.

At the time the forward contract is entered into, the parties involved negotiate and agree upon the forward price. This price is based on factors such as the current spot price of the underlying asset, interest rates, expected future market conditions, and any specific terms or requirements outlined in the contract. Once the forward contract is initiated, the agreed-upon forward price remains fixed throughout the contract. It does not change or get determined during the period of the contract or at its expiration.

25. C — Both analysts are correct.

Analyst 1's statement highlights that commodity prices have historically exhibited a correlation with inflation. Inflation refers to the general rise in prices of goods and services over time. Commodities, such as precious metals, energy resources, and agricultural products, can be directly impacted by changes in inflation. Analyst 2's statement emphasizes the link between commodity prices and economic growth. Economic growth is often associated with increased demand for commodities. As economies expand, there is typically a greater need for raw materials and resources to fuel production and consumption. This increased demand can drive up commodity prices.

26. C — Being convicted of a crime involving fraud and dishonesty

Standard I(D) prohibits conduct involving dishonesty, fraud, or deceit, or any act that reflects adversely on professional reputation, integrity, or competence. A fraud conviction is a direct violation.

27. C — 842.47

$PV = 200 \times [1 - (1.06)^{-5}] / 0.06 = 200 \times 4.212364 = 842.47$. An ordinary annuity pays at the end of each period.

28. C — Decrease

When demand is elastic, the percentage drop in quantity exceeds the percentage rise in price, so total revenue (price \times quantity) falls.



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29. B — It is earned, regardless of when cash is received

Accrual accounting recognizes revenue when it is earned and expenses when incurred, matching them to the period of the related economic activity, not the cash flow.

30. B — An independent board that monitors management on behalf of shareholders

Effective governance features an independent, competent board that oversees management, aligns incentives, and protects the interests of shareholders and other stakeholders.



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