CFA-LEVEL-1 Q&As

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QUESTION 1

The current dividend yield on a stock A is 3.2%. The stock has a required rate of return of 9%. If the firm just paid a dividend of $1.65, what\\'s the expected dividend for next year, assuming a constant growth rate?

A. $2.01

B. $1.89

C. $1.75

D. $1.83

Correct Answer: C

The dividend yield, defined as the expected dividend next period divided by current price, equals D1/Po, in standard notation. Using the Dividend Discount Model, this is equal to k - g. With k = 9%, we get 3.2% = 9% - g. Therefore, g = 5.8%.

The expected dividend next year is then equal to 1.65 * 1.058 = $1.75.

QUESTION 2

Given the following information on the annual operating results for ArtFrames, a producer of quality metal picture frames, calculate the degree of operating leverage (DOL) and the degree of financial leverage (DFL).

Which of the following choices is closest to the correct answer? ArtFrameDOL and DFL are, respectively:

A. 3.00 and 1.50.

B. 2.20 and 1.06.

C. 2.20 and 1.08.

D. 4.53 and 1.19.

Correct Answer: C

The calculations are as follows:

ArtFrames Annual Operating Results	
Sales	$3,500,000
Variable Costs[1]	1,575,000
	1,925,000
Fixed Costs	1,050,000
EBIT	875,000
Interest Expense[2]	67,500
	807,500

1Variable costs = 0.45 * 3,500,000

2Interest Expense = 0.09 * 750,000

Second,calculate DOL:

DOL = (Sales ?Variable Costs) / (Sales ?Variable Costs ?Fixed Costs)

= (3,500,000 ?1,575,000) / (3,500,000 ?1,575,000 ?1,050,000) =2.20

Third,calculate DFL:

DFL = EBIT / (EBIT ?I) = 875,000 / 807,500 =1.08.

QUESTION 3

Mathematically, the marginal propensity to consume is

A. income divided by consumption.

B. additional consumption divided by additional income.

C. consumption divided by income.

D. additional income divided by additional consumption.

Correct Answer: B

The marginal propensity to consume is found according to the following equation: MPC = total change in consumption / total change in income

QUESTION 4

In a distribution that is right skewed:

A. the median is larger than the mean.

B. large negative deviations dominate large positive deviations.

C. the mean is positive.

D. large positive deviations dominate large negative deviations.

Correct Answer: D

large positive deviations dominate large negative deviations.

QUESTION 5

A firm has a cash conversion cycle of 31.6 days. It turns over its inventory on average in 43.1 days and pays off its payables in an average of 23.2 days. Its receivables turnover ratio equals _____.

A. 31.2

B. 42.3

C. 14.9

D. 25.1

Correct Answer: A

CCC = (Average receivables collection period) plus (Average inventory processing time) minus (Average payables payment period). Hence, 31.6 = Average receivables collection period + 43.1 - 23.2, giving Average receivables collection period = 31.6 - 43.1 + 23.2 = 11.7 days. Since Average receivables collection period = 365/receivables turnover, the receivables turnover ratio equals 365/11.7 = 31.2.