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**QUESTION 1**

The first thing one does using the top-down, three step approach to stock valuation is

A. analyze specific company performance. One undertakes such analysis to find the best performing companies in a particular industry. After finding industry favorites, one would then examine which

industries look promising.

B. analyze the general economic influences affecting a national or regional economy. Such analysis includes research on fiscal policy, monetary policy (with its multiplier effect), inflation, and other events such as wars or political upheavals.

C. analyze the general economic influences affecting a national or regional economy. There is a particular focus on inflation because of the important multiplier effect that inflation has on the rest of the economy, particularly aggregate demand.

D. analyze the general economic influences affecting a national or regional economy. There is a particular focus on government monetary policy because of the important multiplier effect that monetary policy has on the rest of the economy.

E. analyze the general economic influences affecting a national or regional economy. Such analysis includes research on fiscal policy (with its multiplier effect), monetary policy, inflation, and other events such as wars or political upheavals.

Correct Answer: E

The first step in the top-down, three-step approach to valuation is analysis of alternative economies and securities markets in order to decide how to allocate investment among different countries and securities. That includes analysis of fiscal and monetary policies, inflation, and other events such as wars and political upheavals that might affect these decisions.

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QUESTION 2

An entity desiring to issue a fixed-income security has placed \$10 million worth of loan receivables in a special purpose vehicle (SPV) that is completely independent of the company. Additionally, the credit rating agencies have suggested the entity secure a third-party guarantee in order to have the security rated AAA. After completing the transfer of assets to the SPV and obtaining a letter of credit from a national bank, the entity issued the AAA-rated security. Which of the following securities did the entity most likely issue?

A. Commercial paper.

B. International bonds.

C. Asset-backed securities.

Correct Answer: C

QUESTION 3



An accelerated life test on a large number of type-D alkaline batteries revealed that the mean life for a particular use before they failed is 19.0 hours. The distribution of the lives approximated a normal distribution. The standard deviation of the distribution was 1.2 hours. About 95.44 percent of the batteries failed between what two values?

- A. 16.6 and 21.4
- B. 14.1 and 22.1
- C. 12.2 and 14.2
- D. None of these answers
- E. 8.9 and 18.9

Correct Answer: A

$9544/2 = 0.4772$. For an area under the curve of 0.4772, the z value is $(+/-)2$. We know that $z = (x-u)/\sigma$. Therefore, $+/-2 = (x-19)/1.2$. Rearranging we get $x = u +/- z*\sigma$. So $x = 19 +/- 2*1.2 = 19 +/- 2.4$. x is 16.6 and 21.4.

QUESTION 4

Which of the following is not an advantage of technical analysis?

- A. Requires the use of audited financial statements
- B. Technical analysis is not time-consuming
- C. Can catch market trends and reversals close to their occurrence
- D. Does not rely heavily on financial figures and accounting statements
- E. Does not assume that securities prices move in observable trends

Correct Answer: A

One of the major advantages cited by technical analysts is that technical analysis does not rely heavily on financial statements. Technical analysts believe that securities markets "price in" material information gradually, and that securities prices move in identifiable trends and patterns. An astute technical analyst, it is argued, can identify superior investment opportunities by recognizing the implicit trends exhibited by securities prices and quantifiable past performance data. This belief is in striking contrast with the Weak Form EMH, and is arguably the greatest criticism raised against technical analysis.

QUESTION 5

Which of the following relationships is/are correct:

- I. change in assets + change in liabilities = change in equity.
- II. change in retained earnings = net income + dividends paid.
- III. assets - liabilities = retained earnings + contributed capital.
- IV.



assets = liabilities + revenues - expenses.

A.

I, II and III

B.

III only

C.

I, II, III and IV

D.

II and III

Correct Answer: B

The basic accounting equation is Total assets = Total liabilities + Total Equity. In I and II, the "plus" should be "minus."

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