CFA-LEVEL-1 Q&As

CFA Level I Chartered Financial Analyst

Pass CFA CFA-LEVEL-1 Exam with 100% Guarantee

QUESTION 1

Which of the following is the preferred method of return calculation in the investment management industry?

A. Time-weighted rate of return

B. Dollar-weighted rate of return

C. Internal rate of return

D. None of these answers is correct.

E. Asset-weighted rate of return

Correct Answer: A

The time-weighted rate of return is the preferred method of return calculation in the investment management industry, and this is precisely because the time-weighted rate of return is not sensitive to significant portfolio additions or withdrawals, unlike the dollar weighted rate of return.

Remember that the dollar-weighted rate of return is another name for the Internal Rate of Return. Knowing this fact allows you to narrow the answer down to three possible choices. The asset-weighted rate of return is by definition sensitive to additions and withdrawals of portfolio assets.

QUESTION 2

What is a Type II error?

A. Rejecting a false alternative hypothesis

B. Accepting a false null hypothesis

C. None of these answers

D. Accepting a false alternative hypothesis

E. Rejecting a false null hypothesis

Correct Answer: B

The type II error is accepting the null hypothesis when it is actually false.

QUESTION 3

Assume you buy a car for $18,000 today and agree to pay $250 a month, beginning next month, for 5 years with a final payment also due 5 years from today to pay off any remaining balance. How large will that final payment be, if interest accrues at 2.9% per year, compounded monthly?

A. $3,000.00

B. $4,683.97

C. $4,280.77

D. $9,690.32

E. $1,204.41

Correct Answer: B

There are 60 months in 5 years. This is a problem known as a balloon payment. On the BAII Plus, press 60 N, 2.9 divide 12 = I/Y, 18000 PV, 250 +/- PMT, CPT FV. On the HP12C, press 60 n, 2.9 ENTER 12 divide i, 18000 PV, 250 CHS PMT, FV. Note that the answer will be displayed as a negative number. Make sure the BAII Plus has the value of P/Y set to 1.

QUESTION 4

Serena Zaltz is a portfolio manager at Katalina Investments, a small boutique in Connecticut. She currently manages 3 client accounts, one of which belongs to John Hersham. John recently told Serena that if his portfolio beat the SandP500 by 75 basis points over the next 3 months, he would give 10 basis points to her as a "superior performance reward." Serena told him this was unnecessary but John insisted that such an arrangement be made on a handshake. Serena subsequently spoke to her supervisor, Helena, about it and Helena did not object to the arrangement. Then, Serena has:

A. has violated Standard IV (A.3) - Independence and Objectivity.

B. has violated Standard III (D) - Disclosure of Additional Compensation Arrangements.

C. not violated any code of conduct.

D. has violated Standard IV (B.8) - Disclosure of Referral Fees.

Correct Answer: B

While Serena may have informed her employer orally about her additional compensation arrangement, Standard III (D) requires written notification to the employer and this includes any form of communication that can be documented. Such written disclosures act as paper trails of all such arrangements and act as a deterrent to such arrangements except in the more compelling cases.

QUESTION 5

Inflation contributes to the depreciation of a nation\\'s currency only when a country\\'s rate of inflation is ________ that of its trading partners.

A. less rapid than

B. equal to

C. more rapid than

D. none of these answers, inflation rate is irrelevant

Correct Answer: C

If the rate of inflation in a nation is greater than that of its trading partners prices are rising faster at home than abroad.

As a result, foreign consumers demand less of the nation\\'s exports because they are now relatively more expensive. Falling demand for exports causes the demand for the nation\\'s currency to decline and thus the currency depreciates.