# CFA-LEVEL-1 Q&As

CFA Level I Chartered Financial Analyst

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**QUESTION 1**

A firm is considering undertaking a project requiring $7 million of new capital. The managers of the firm consider the prospects of the project having a 36% rate of return extremely likely, with a small probability that the project will not recover anything invested. The firm\\'s current debt ratio is 70% and market analysts have estimated that the tax benefits from an increase in the debt level will be far smaller than the increase in bankruptcy costs. The Signaling Theory implies that the firm will try to raise _______ capital. The Trade-off Theory implies that the firm will try to raise _______ capital.

A. equity; equity

B. equity; debt

C. debt; debt

D. debt; equity

Correct Answer: D

Since additional debt does not create more benefits from tax shield than the losses anticipated due to increased bankruptcy costs, the Trade-off theory implies that the firm will try to raise equity capital for the project. On the other hand, since the prospects of the project are extremely favorable, Signaling Theory says that the firm would rather raise the capital through debt so that the profits from the project are shared on an equity basis only with the current shareholders.

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**QUESTION 2**

How much must you deposit today in order to withdraw $1,500 in 1 year, $400 in 2 years and $1,500 in 4 years, assuming your money earns 6% per year, compounded annually?

A. $2,771.03

B. $2,821.95

C. $2,959.23

D. $3,029.49

E. $404.92

Correct Answer: C

Solve this question by working 3 compound interest problems. On the BAII Plus, press 1 N, 6 I/Y, 0 PMT, 1500 FV, CPT PV, which yields $1,415.09. Then press STO 1. Then press 2 N, 400 FV, CPT PV, which yields $356.00. Then press + RCL 1 = STO 1. Then press 4 N, 1500 FV, CPT PV, which yields $1,188.14. Then press + RCL 1 = to see the answer. On the HP12C, press 1 n, 6 i, 0 PMT, 1500 FV, PV. Then press STO 1. Then press 2 N, 400 FV, PV. Then press RCL 1 + STO 1. Then press 4 n, 1500 FV, PV. Then press RCL 1 + to see the answer. Note that the answer will be displayed as a negative number. Make sure the BAII Plus has the P/Y value set to 1.

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**QUESTION 3**

A country cannot maintain currency convertibility if:

A. none of these answers.

B. it allows the exchange rate value of its currency to fluctuate and follows an independent monetary policy.

C. it fixes the exchange rate value of its currency and has a dependent monetary policy.

D. it fixes the exchange rate value of its currency and follows an independent monetary policy.

Correct Answer: D

A country can either follow an independent monetary policy and allow its exchange rate to fluctuate or tie its monetary policy to the maintenance of the fixed exchange rate.

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**QUESTION 4**

If the overall price trend of the market has been down, the moving-average line would generally lie ________ current prices.

A. can\\'t be determined without further information

B. below

C. on

D. above

Correct Answer: D

Moving averages lag current trends because data used to calculate moving averages is from recent past.

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**QUESTION 5**

Lynn Burns, CFA, is examining the performance of Intelligent Semiconductor, and has gathered the following information:

Market discount rate: 14.5% per year Observed Price/Earnings ratio: 26.50

Given this information, what is the Franchise Price/Earnings ratio for Intelligent Semiconductor?

A. The answer cannot be calculated from the information provided.

B. 30.99

C. 19.60

D. 33.40

E. None of these answers is correct.

F. 23.14

Correct Answer: C

The Franchise Factor method of value measurement is in many respects similar to EVA and MVA calculations. When examining a company using the franchise value approach, the observed price-toearnings ratio is broken down into its two components - (1) the "base P/E," which is based on the Company\\'s ongoing performance, and (2) a "franchise P/E" that is based on the expected value of new and profitable business opportunities. This relationship is illustrated as follows:

Franchise P/E = Observed P/E - Base P/E

Where the Base P/E equals the reciprocal of the market discount rate. For example, if the market discount rate is 14.5%, the base P/E would be equal to 6.89655.

In this example, all the necessary information has been provided, and the calculation of the Franchise P/E is as follows:

Franchise P/E = (26.5 - 6.89655) = 19.60345