

CFA-LEVEL-1^{Q&As}

CFA Level I Chartered Financial Analyst

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QUESTION 1

Suppose the probability that oil prices will rise any given quarter is 0.51, and the probability that oil prices will stay level or decline is 0.49. If oil prices rise, GNP will contract by 1% with 80% probability, and expand by 0.5% with 20% probability. If oil prices decline or stay level, GNP will expand 3% with a 75% probability and contract 0.5% with a 25% probability. What is the expected change in GNP in the next quarter?

A. +0.68%

B. -0.86%

C. +0.86%

D. -0.68%

Correct Answer: A

We need the total probability rule for expected value, for which the formula is $E(X) = E(X | S_1) * P(S_1) + E(X | S_2) * P(S_2) + ... + E(X | S_n) * P(S_n)$. Here, E(X) is the expected change in GNP. S_1 is the event that oil prices rise, and S_2 is the event that oil prices fall. Therefore, E(X) = 0.51 * (-1%*80% + 0.5%*20%) + 0.49 * (3%*75% - 0.5%*25%) = 0.68%, an expansion.

QUESTION 2

Contingent losses are recognized:

I. when they actually occur during a contingency.

II. only if it is probable that a loss will occur.

III. only if the amount of the loss can be reasonably estimated.

IV.

at the management\\'s discretion.

Α.

II, III and IV

В.

I only

C.

II and III

D.

II and IV

Correct Answer: A



II and III must hold together for a recognition of contingent losses to take place. GAAP defines "probable" as "greater than 50% chance." Since this is subjective, the management has considerable discretion on the timing of recognition.

QUESTION 3

Each of the following are conditions that must be met if revenue is going to be recognized at the time of sale except

A. seller has no significant obligations for future performance to directly effect resale of product.

B. product return periods are less than or equal to 30 days from the time of sale.

C. price is substantially fixed or determinable at the sale date.

D. buyer pays the seller or is obligated to pay the seller (not contingent on resale).

Correct Answer: B

Revenue can be recognized at the time of sale as long as the product returns are reasonably estimated as well as several other conditions existing. There is no definitive number of days that make the recognition possible.

QUESTION 4

The ages of all the patients in the isolation ward of the hospital are 38, 26, 13, 41 and 22. What is the population variance?

A. 91.4

B. 106.8

C. None of these answers

D. 240.3

E. 42.4

Correct Answer: B

Population variance = (Sum of squared deviation from the mean)/N. the mean is 28. Population variance = (100 + 4 + 225 + 169 + 36)/5 = 534/5 = 106.8

xx-mean(x-mean)^2 3810100 26-24 13-15225 4113169 22-636

QUESTION 5

Howard Keane is a strategist for Dove Investments. His models indicate that the expected inflation rate will be 3.0%. The real rate of return on the SandP 500 index is expected to be 8.7%, while the real rate of return on U.S. Treasury notes is expected to be 1.0%. Howard is interested in the current equity risk premium. Based on the information above, the equity risk premium is closest to:

A. 4%.



B. 6%.

C. 8%.

Correct Answer: C

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