



# CFA-LEVEL-1<sup>Q&As</sup>

CFA Level I Chartered Financial Analyst

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### QUESTION 1

The value of an asset is the \_\_\_\_\_ of its expected future cash flows.

- A. none of these answers
- B. weighted sum
- C. future value
- D. sum

Correct Answer: A

The value of an asset is the net present value or NPV of its expected future cash flows.

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### QUESTION 2

According to the fundamental view of risk, an individual's required rate of return is determined at least in part by all of the following factors EXCEPT:

- A. the preference consumers have for current consumption.
- B. relative ease or tightness in the capital markets.
- C. business risk.
- D. beta risk.

Correct Answer: D

Beta risk, or the riskiness of the stock as viewed by a well-diversified stockholder, is used in the systematic view of risk. The fundamental view of risk views required return as  $(1 + \text{real rate})(1 + \text{expected inflation rate})(1 + \text{risk premium}) - 1$ . The risk premium is a function of total risk. (Total risk = business risk + financial risk + liquidity risk + exchange rate risk + country risk.) The preference consumers have for current consumption is a component of the real risk-free rate. The relative ease or tightness in the capital markets is a component of the inflation rate. Both the real-risk free rate and the inflation rate are components of the total return. Under the fundamental view of risk, business risk is part of the risk premium.

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### QUESTION 3

Under AIMR Rules of Procedure for the Proceeding Related to Professional Conduct, membership in AIMR and/or the right to hold and to use the CFA designation may be summarily suspended by AIMR's Designated Officer for the following misconduct:

- I. Conviction for a crime that is defined as a felony or its equivalent.
- II. Indefinite bar from registration under the securities laws (even though reapplication may be made after a specific period of time).
- III.



Failure to complete and return a professional conduct statement for each of two successive years.

- A.
- I only.
- B.
- I and II only.
- C.
- IV only.
- D.
- II only.
- E.
- III only.
- F.
- II and III only.
- G.
- I, II and III.

Correct Answer: G

This question relates to AIMR's summary suspension powers as defined in the Bylaws under the Professional Conduct Program. Statements I, II and III describe grounds for summary suspension of membership in AIMR and/or the right to hold and use the CFA designation.

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#### QUESTION 4

A confidence index value of 105 is

- A. a bullish sign.
- B. impossible.
- C. an unimportant sign.
- D. a bearish sign.

Correct Answer: B

The confidence index is equal to the average yield on 10 top-grade corporate bonds divided by the yield on the Dow Jones average of 40 bonds, multiplied by 100. Since the average yield on high-grade bonds will always be higher than the average yield on a large cross section of bonds, the index will always have a value under 100.

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#### QUESTION 5

The allowance for uncollectible accounts is

- A. a reduction in revenue
- B. a liability
- C. long-term asset
- D. a contra account

Correct Answer: D

Allowance for Uncollectible Accounts, sometimes referred to as Bad Debt Reserve, is a contra account to Accounts Receivable.

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