CFA-LEVEL-1 Q&As

CFA Level I Chartered Financial Analyst

QUESTION 1

In a classified balance sheet the following is always true:

A. Current assets include only items that will be converted into cash within 1 year.

B. Assets and liabilities are broken down as current and non-current.

C. Current assets divided by current liabilities will equal working capital.

D. All of these answers are true.

Correct Answer: B

A classified balance sheet always breaks down current and non-current assets and liabilities. Items defined as current assets are those that will be converted to cash or used in operations within one year or the operating cycle, whichever is longer. Current liabilities are obligations due during the same period. Current assets minus current liabilities is equal to working capital.

QUESTION 2

Which of the following is not an assumption of the infinite period Dividend Discount Model?

A. Earnings grow at a constant rate.

B. The required rate of return is greater than the growth rate of dividends.

C. The constant dividend growth rate will continue for an infinite period.

D. Dividends grow at a constant rate.

Correct Answer: A

The infinite period dividend discount model does not concern itself with earnings. It assumes that dividends (which are the basis for its valuation of stock), rather than earnings, grow at a constant rate. But implicit in this assumption is the further assumption that earnings remain high enough to finance the constant and often growing dividend payments.

QUESTION 3

What is the major difference between venture capitalists and other types of portfolio managers?

A. Venture capitalists only invest in start-up companies, while other types of portfolio managers do not.

B. Portfolio managers do not become too involved with the companies they invest in, while venture capitalists do.

C. Portfolio managers cannot exert control over a company in the way a venture capitalist can.

D. There are no major differences between the two.

E. Venture capitalists require a much higher rate of return over the life of the investment.

Correct Answer: B

The major difference between venture capitalists and other types of portfolio managers is that portfolio managers do not become too involved with the companies they invest in because they may have to liquidate positions quickly. This is the direct opposite of venture capitalists who must establish more personal relationships with the entrepreneurs in whom they invested over much longer time periods.

QUESTION 4

Which one of the following actions will not help to ensure the fair treatment of brokerage firm clients when a new investment recommendation is made?

A. Minimize elapsed time between the decision and the dissemination of a recommendation.

B. Limit the number of people in the firm who are aware in advance that a recommendation is to be disseminated.

C. Distribute recommendations to institutional clients prior to individual accounts.

D. Monitor the trading activities of firm personnel.

Correct Answer: C

This question deals with Standard IV (B.3), Fair Dealing. All the procedures listed will help members treat clients fairly, except distributing recommendations to institutional clients prior to individual accounts. This practice discriminates among clients based on size and class of assets and is a violation of Standard IV (B.3).

QUESTION 5

Low-load open-end funds

A. never charge sales or redemption fees.

B. never charge sales fees.

C. charge sales fees of about 0.5 to 1% of NAV.

D. charge sales fees of about 3% of NAV.

E. charge sales fees of about 5 to 6% of NAV

Correct Answer: D

Low-load open-end funds typically charge front-end sales fees in the 3% range (rather than 7 to 8%) when the fund is bought. These funds typically are used for bond funds or equity funds offered by management companies that also offer no- load funds.