

CFA-LEVEL-1^{Q&As}

CFA Level I Chartered Financial Analyst

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QUESTION 1

Fiduciary duty includes a duty of loyalty and a reasonable standard of ______.

A. care

B. none of these answers

C. prudence

D. custody

Correct Answer: A

Standard IV (B.1) - Fiduciary Duties - states: Because the fiduciary is in a position of trust, the duty required in fiduciary relationships exceeds what may be acceptable in other industries. Fiduciaries owe undivided loyalty to their clients and must place client interests before their own. The investment manager\\'s fiduciary responsibility to a client includes a duty of loyalty and a duty to exercise a reasonable standard of care. Investment actions should be carried out for the sole benefit of the client and in a manner the manager believes to be in the interest of the client, given the known facts and circumstances.

QUESTION 2

Given the following assumptions about a companyfinancial estimates, calculate the P/E ratio, and

determine whether the stock is undervalued or overvalued.

Which of the following statements is most correct? The P/E ratio is:

- A. 7.41 and the stock is overpriced.
- B. 7.41 and the stock is underpriced.
- C. 6.78 and the stock is overpriced.
- D. 6.78 and the stock is underpriced.

Correct Answer: A

First, determine the value of the stock. Then, compare your calculation to the current market price. The assumptions lead us to use the P/E (earnings multiplier) and EPS to calculate the value. Step 1: Estimate the P/E ratio Step 2: Estimate Earnings Per Share (given at \$2.75) Step 3: Calculate value Step 4: Determine under/over valuation Since the market value is greater than the estimated value, the stock is overpriced.

QUESTION 3

Which of the following is the formula for the value of preferred stock?

- A. dividend multiplied by the required rate of return
- B. dividend divided by the required rate of return



- C. required rate of return divided by the dividend
- D. the present value of an infinite stream of dividends

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Correct Answer: B
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The value of preferred stock is the stated annual dividend divided by the required rate of return on preferred stock.

QUESTION 4

What is the present value today of these annual cash flows: \$300, \$1,200, \$2,500? Assume the first cash flow occurs 1 year from today and an interest rate of 9% per year, compounded annually.

A. \$3,215.70

- B. \$2,989.06
- C. \$3,244.09

D. \$3,298.82

E. \$3,308.86

Correct Answer: A

You could solve this question using 3 different compound interest problems, but it is easier to solve them using the calculator\\'s cash flow functions. On the BAII Plus, press CF 2nd CLRWork 0 ENTER DownArrow 300 ENTER DownArrow 1200 ENTER DownArrow DownArrow 2500 ENTER DownArrow DownArrow 2nd Quit. Then press NPV 9 ENTER DownArrow CPT. On the HP12C, press these keys: 0 BlueShift CFo 300 BlueShift CFj 1200 BlueShift CFj 2500 BlueShift CFj. Then press 9 i, YellowShift NPV. The "DownArrow" represents the downward-pointing arrow on the top row of the BAII Plus keyboard. Make sure that the BAII Plus has the P/Y value set to 1.

QUESTION 5

Which of the following affect the required rate of return on a stock?

- A. All of these can affect the required rate of return.
- B. Changes in the rate of inflation
- C. Changes in the exchange rate
- D. Changes in the real risk-free rate
- E. Changes in the risk premium

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Correct Answer: A
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The required rate of return is equal to the nominal risk-free rate (a function of the real risk-free rate and the rate of inflation) plus the risk premium. Changes in the exchange rate usually are included in the risk premium.



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