

Level I of the CFA® Exam

Mock Questions - Mock Exam 2027 #1 - First Session
(Corporate Issuers, Ethical and Professional Standards,
Quantitative Methods, Economics & Financial Statement
Analysis)

Offered by AnalystPrep

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Q.1 The covariance between the returns of Funds X and Y is 0.0060. Their return standard deviations are 10% and 12%, respectively. The correlation between the two funds is *closest to*:

- A. 0.05
 - B. 0.50
 - C. 0.72
-

Q.2 The one-year spot rate is 3.2%, and the two-year spot rate is 4.1%. Both rates use annual compounding. The one-year forward rate one year from today is *closest to*:

- A. 3.2%
 - B. 4.1%
 - C. 5.0%
-

Q.3 An investment firm trains an algorithm using borrower records for which the subsequent default outcome is already known. The algorithm will estimate default probabilities for new borrowers. This application is *best described* as:

- A. artificial intelligence.
 - B. supervised machine learning.
 - C. unsupervised machine learning.
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Q.4 Using monthly excess returns, an analyst estimates a market-model regression for a stock. The covariance between the stock and market excess returns is 0.018, and the variance of market excess returns is 0.015. The stock's estimated beta is *closest to*:

- A. 0.83
 - B. 1.20
 - C. 1.50
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Q.5 If the significance level of a test is 0.05 and the probability of a type II error is 0.25, the power of the test is *closest to*:

- A. 0.2
 - B. 0.7
 - C. 0.75
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Q.6 Asset A has a return standard deviation of 12%, Asset B has a return standard deviation of 18%, and their return correlation is 0.25. The weight of Asset A in the two-asset global minimum-variance portfolio is *closest to*:

- A. 25%
 - B. 50%
 - C. 75%
-

Q.7 A researcher tests whether a strategy's population mean annual return differs from 6.0%. A sample of 64 observations has a mean of 7.4%. The population standard deviation is known to be 4.8%. Based on a two-tailed test, the null hypothesis is:

- A. rejected at both 1% and 5%.
 - B. rejected at 5% but not at 1%.
 - C. not rejected at either 1% or 5%.
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Q.8 Before reviewing a warning signal, an analyst estimates a 20% probability that an issuer's credit quality will deteriorate. The signal occurs for 70% of issuers whose credit quality deteriorates and for 15% of issuers whose credit quality does not deteriorate. If the signal occurs, the updated probability of deterioration is *closest to*:

- A. 46.7%
 - B. 53.8%
 - C. 70.0%
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Q.9 A company's shares trade at EUR 46.00. The next annual dividend is expected to be EUR 2.40, and investors require a return of 8.5%. Assuming dividends grow at a constant rate indefinitely, the implied growth rate is *closest to*:

- A. 3.28%
 - B. 5.22%
 - C. 13.72%
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Q.10 A float-adjusted market-capitalization-weighted index contains only two stocks. At the start of the period, Stock A has a float-adjusted market value of USD 180 million and Stock B has a float-adjusted market value of USD 120 million. During the period, A returns 9% and B returns -3%. The index return is *closest to*:

- A. 3.0%
 - B. 4.2%
 - C. 6.0%
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Q.11 A portfolio earns 18% during the first year. Immediately after the year-end valuation, an investor contributes a large amount to the portfolio. During the second year, the portfolio earns -6%. Compared with the portfolio's time-weighted rate of return, its money-weighted rate of return is *most likely*:

- A. lower.
 - B. equal.
 - C. higher.
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Q.12 An analyst estimates the following components of the required return on a five-year corporate bond: real risk-free rate of 1.4%, expected inflation of 2.2%, default risk premium of 1.0%, liquidity premium of 0.5%, and maturity premium of 0.3%. The bond's required return is *closest to*:

- A. 3.6%
 - B. 4.9%
 - C. 5.4%
-

Q.13 An investor purchases a share for USD 52.00, receives a dividend of USD 1.30, and sells the share one year later for USD 56.50. The investor's holding-period return is *closest to*:

- A. 8.7%
 - B. 10.3%
 - C. 11.2%
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Q.14 When the economy bounces back from a prolonged period of contraction, the inventory turnover ratio of most companies will *most likely*:

- A. Start to increase.
 - B. Start to decrease.
 - C. Remain unchanged.
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Q.15 The time governments take to discuss, vote, and enact fiscal policies is *most likely* called:

- A. Action lag.
 - B. Impact lag.
 - C. Recognition lag.
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Q.16 If the central bank reduces the reserve requirements and increases net redemptions (purchases) of treasury securities, then:

- A. interest rates would rise, and bank lending activities would decrease.
 - B. banks would increase lending activities, and the money supply would increase.
 - C. banks would decrease acceptance of deposits, and the money supply would decrease.
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Q.17 As an economic analyst at a large financial firm, Grace is tasked with assessing the potential impact of recent changes in housing permits and construction data on future economic trends. Given the leading nature of these indicators, what conclusions might Grace *most likely* draw about the forthcoming economic conditions?

- A. Stagnant construction data suggests a rapid economic turnaround is imminent.
 - B. The economy is likely to enter an expansion phase if housing permits and construction activities are increasing.
 - C. A decrease in housing permits indicates immediate improvements in consumer confidence and economic stability.
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Q.18 Which of the following is the *least likely* motivation for globalization among non-state actors?

- A. Intrinsic gain.
 - B. Currency exchange.
 - C. Access to resources and markets.
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Q.19 What *most likely* happens to the consumer surplus of the importing country when tariffs are imposed?

- A. The consumer surplus increases.
 - B. The consumer surplus decreases.
 - C. There Is no change in the consumer surplus.
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Q.20 If in 2001, Dollar/Euro=3.67, and in 2002, Dollar/Euro=4.67, we *most likely* would say that:

- A. The Euro has depreciated.
 - B. The dollar has depreciated.
 - C. The dollar has appreciated.
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Q.21 A profit-maximizing monopolist should choose an output level and price such that:

- A. Marginal revenue equals marginal cost, and price exceeds average total cost.
 - B. Marginal revenue is greater than marginal cost, and price equals average total cost.
 - C. Marginal revenue is greater than marginal cost, and price is less than average variable cost.
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Q.22 Which of the following is the primary objective of most central banks?

- A. Controlling inflation.
 - B. Maintaining price stability.
 - C. Controlling unemployment.
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Q.23 Which of the following is the name given to the demand curve in an oligopolistic pricing strategy?

- A. Vertical demand curve.
 - B. Kinked demand curve.
 - C. Horizontal demand curve.
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Q.24 When inventories start to accumulate, the inventories-to-sales ratio reaches its above-normal level. Which phase of the business cycle is *most likely* associated with an increased inventories-to-sales ratio?

- A. Peak.
 - B. Trough
 - C. Expansion
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Q.25 If the exchange rate of Euros in terms of dollars has increased from 1.12 USD/EUR to 1.24 USD/EUR, then the *most likely* impact on prices of goods denominated in Euros is that Euro-denominated goods cost:

- A. less in terms of USD.
 - B. more in terms of USD.
 - C. the same in terms of USD.
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Q.26 Which of the following is *least likely* a benefit of having strong institutions in a country, with respect to geopolitics?

- A. They allow countries to engage internationally with independence.
 - B. They contribute to more stable internal and external political forces.
 - C. Increase in the likelihood of a country defecting from its cooperative roles.
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Q.27 One year ago, ABC Corp bought a corporate bond for \$1,000 and classified it as available for sale. It collected \$40 in coupons, and the bond is now worth \$1,020. What should ABC Corp show for this bond on its balance sheet?

- A. \$1,000
 - B. \$1,020
 - C. \$1,060
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Q.28 Under US GAAP, which of the following leases will be recorded as a finance lease from the lessee's perspective?

- A. A firm leased equipment with the asset's present value of \$81,575 while the asset's fair value is \$97,000.
 - B. A jet rental company leased a private jet from a leasing company for ten years. The economic life of similar jets is twelve years.
 - C. A firm leased machinery for \$100,000 and promised that the machinery would be returned to the lessor at the maturity of the lease.
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Q.29 Core Corp. has an inventory that was written down to \$6,500. Due to a shortage in supply, the Net Realizable Value of inventory increased to \$8,000. The value of write-up of inventory if Core Corp reports under US GAAP is *closest to*:

- A. \$0
 - B. \$1,500
 - C. \$14,500
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Q.30 MZJ & Sons, an audit firm, is reviewing the financial statements of Xspace, a space tech firm. Xspace has developed a communication device that will never require charging or batteries. Since the scope of the valuation of such a product is limited, the auditors are unable to express their opinion. In such a situation an auditor will *most likely* issue a/an:

- A. Disclaimer of opinion.
 - B. Qualified audit opinion.
 - C. Unqualified audit opinion.
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Q.31 Baskin Ice Creams' net income for the year ended December 31st, 2016, was USD 1,750,000. The following are the details of the common stock of the company.

Shares outstanding on January 1 2016	96,000
Shares repurchased on May 1, 2016	16,000
Shares issued on August 1 2016	40,000
Shares issued on November 1, 2016	6,000
Shares outstanding on December 31, 2016	126,000

The company declared 3 for 1 stock split on March 1st, 2016, which took effect on October 1st, 2016. If the company declared and paid a USD 450,000 dividend on preferred stock, the company's basic EPS is *closest to*:

- A. 4.21
 - B. 5.99
 - C. 12.62
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Q.32 The financial data of a UniLateral Equipments for the year 2014 is provided in the following table:

Net Income	700
Depreciation Expense	57
Decrease in Acc. Rec.	49
Increase in Inventory	36
Interest Expense	100
Increase in Capital Expenditure	180
Debt Issued	450
Debt Repaid	330

Assuming a tax rate of 40% for the firm, the free cash flow to equity (FCFE) for the year 2014 is *closest to*:

- A. \$650.
 - B. \$710.
 - C. \$770.
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Q.33 Which of the following is *least likely* a reason for a firm to overstate its net income?

- A. To minimize incentive compensation.
 - B. To meet analysts' earnings expectations.
 - C. To remain in compliance with lending contracts.
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