

# 2025 CFA<sup>®</sup>



**CFA Institute<sup>®</sup>**  
CFA Program

# CFA Level I



**LEVEL I BOOK 2**

# Premium Practice Pack

**Equity Investment & Ethical and  
Professional Standards**



# **CFA L-1 Premium Practice Pack - 2025**

## **Volume 2**

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## Equity Investments: Practice Pack- Questions

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Question

A firm reports negative earnings for the year just ended. The price multiple of the firm's stock that is *least likely* to be meaningful is:

- A. trailing price to earnings.
- B. price to cash flow.
- C. leading price to earnings.

Question 2 of 154

Question

Which of the following dates in the dividend chronology can fall on a weekend?

- A. The payment date.
- B. The record date.
- C. The ex-date.
- D. The declaration date.

Question 3 of 154

Question

An investor writes a put option on FTSE 100 Index futures. Which of the following *best* describes the investor's position with respect to the put contract and her exposure to the underlying index future, respectively?

- A. Long, short
- B. Short, long
- C. Short, short

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Question

Which of the following financial intermediaries is *most likely* to provide liquidity service to its clients?

- A. Brokers
- B. Dealers
- C. Exchanges

Question 5 of 154

Question

The value effect market-pricing anomaly *most likely* occurs when stocks that have below-average price-to-earnings and market-to-book ratios, as well as above-average dividend yields, consistently outperform:

- A. large-cap stocks.
- B. growth stocks.
- C. stocks that have had negative earnings surprises.

Question 6 of 154

Question

Depreciation expense is *best* used in forecasting:

- A. growth capital expenditure only.
- B. maintenance capital expenditure only.
- C. both growth capital expenditure and maintenance capital expenditure.

Question 7 of 154

Question

Which of the following forecast objects for a bank's revenue is *best* classified as a top-down driver?

- A. Net interest income
- B. Growth in market share
- C. Growth in the number of branches

Question 8 of 154

Question

Which of the following statements about scenario analysis is *most* accurate?

- A. Scenario analysis provides a point estimate forecast
- B. Forecast scenarios can be compared to forecasts implied by current valuations
- C. Generic risk factors in scenario analysis are assumed to affect all companies in the same way

Question 9 of 154

Question

Which financial statement forecasting approach is *best* suited for companies in highly cyclical industries?

- A. Historical results
- B. Management guidance
- C. Analyst's discretionary forecasts

Question 10 of 154

Question

Downside and upside risk factors are *most likely* included in:

- A. an initial company research report only.
- B. a subsequent company research report only.
- C. both initial and subsequent research reports.

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Question

A natural resources company having access to cheap energy *most likely* will be able to sell its output:

- A. at market price.
- B. above market price.
- C. at a price unilaterally set by management.

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Question

An investor considers the following certificates of deposit (CDs) available for purchase at face value:

**CD Interest**  
**Rate**

- 1 2.2%
- 2 3.3%
- 3 4.4%

If each CD has the same maturity and default risk, the opportunity cost of investing in CD 1 is *closest* to:

- A. Debt issuances
- B. Share repurchases
- C. Positive net working capital

Question 13 of 154

Question

Clearing instructions for an order *most likely* indicate:

- A. how to fill the order.
- B. when the order may be filled.
- C. how to arrange the settlement of the trade.

Question 14 of 154

Question

Which of the following statements about forecasting selling, general and administrative (SG&A) expenses is *most accurate*?

- A. General corporate costs are mostly variable costs
- B. Selling and distribution expenses can be modeled as a percentage of sales
- C. Overall SG&A expenses have a more direct relationship with revenues than cost of goods sold

Question 15 of 154

Question

Preference shares *most likely* rank above common shares with respect to:

- A. voting rights.
- B. sharing in the operating performance of the company.
- C. the distribution of the company's net assets upon liquidation.

Question 16 of 154

Question

A free-cash-flow-to-equity model is a(n):

- A. multiplier model.
- B. present value model.
- C. asset-based valuation model.

Question 17 of 154

Question

An analyst gathers the following information about an equal-weighted index composed of three securities:

Security	Beginning of Period Price (€)	End of Period Price (€)	Total Dividends (€)
1	20	18	1
2	10	15	3
3	15	0	

The price return of the index is *closest* to:

- A. 20%.
- B. 27%.
- C. 38%.

Question 18 of 154

Question

A limit order book (in € per share) has the following order prices:

<u>Bids</u>	<u>Asks</u>
-	48.20
-	48.00
47.85	-
47.70	-

A sell order is behind the market at a price of:

- A. €47.70.
- B. €48.00.
- C. €48.20.

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Question

All else being equal, the preference share with the lowest certainty of future cash flows and the greatest potential risk for investors is *most likely*:

- A. putable with non-cumulative dividends.
- B. non-callable with cumulative dividends.
- C. callable with non-cumulative dividends.

Question 20 of 154

Question

The index weighting method that underrepresents securities that constitute the largest fraction of the target market value is *most likely* the:

- A. price-weighting method.
- B. equal-weighting method.
- C. market-capitalization-weighting method.

Question 21 of 154

Question

An analyst gathers the following information about a company:

Estimated forward P/E ratio 8

Retention rate 45%

If the investor's required rate of return is 10%, the company's ROE is *closest* to:

- A. 6.9%.
- B. 8.0%.
- C. 9.7%.

Question 22 of 154

Question

Which of the following is *least likely* to directly affect a company's book value?

- A. Changes in the company's net income
- B. Purchases by the company of its own shares
- C. Investor estimates of the company's future cash flows

Question 23 of 154

Question

With respect to behavioral biases, when investors tend to be slow to react to new information and continue to maintain their prior views, this is *best* described as:

- A. conservatism.
- B. herding behavior.
- C. representativeness.

Question 24 of 154

Question

If a stock index's constituents make no distributions to their shareholders, the total return of the index is:

- A. less than its price return.
- B. equal to its price return.
- C. greater than its price return.

Question 25 of 154

Question

A trader gathers the following limit order information about a stock:

<u>Bid Size (number of shares)</u>	<u>Share Price (\$)</u>	<u>Offer Size (number of shares)</u>
10	75.70	---
20	75.80	---
---	75.90	5
---	76.00	10
---	76.10	15

If the trader submits a fill or kill buy order for 20 shares at a limit price of \$76.00, the trader's average price per share for this trade will be *closest* to:

- A. \$75.80.
- B. \$75.97.
- C. \$76.00.

Question 26 of 154

Question

An instruction that indicates when an order may be filled is *most likely* a(n):

- A. validity instruction.
- B. clearing instruction.
- C. execution instruction.

Question 27 of 154

Question

A stock dividend:

- A. is relevant for valuation of a company.
- B. involves a reduction in the number of shares outstanding.
- C. does not affect the shareholders' proportional ownership in the company.

Question 28 of 154

Question

Common shares that are tradeable on different stock exchanges in different currencies are *best* described as:

- A. global registered shares.
- B. global depository receipts.
- C. a basket of listed depository receipts.

Question 29 of 154

Question

A sell order that instructs the broker to obtain the best price immediately available without specifying a minimum price is a:

- A. stop order.
- B. limit order.
- C. market order.

Question 30 of 154

Question

All else being equal, a reverse stock split results in:

- A. a decrease in the number of shares and an increase in the share price.
- B. an increase in the number of shares and a decrease in the share price.
- C. an increase in the number of shares and an increase in the share price.

Question 31 of 154

Question

All else being equal, which of the following has the same effect on shareholders' wealth as a cash dividend?

- A. A stock split
- B. A stock dividend
- C. A share repurchase

Question 32 of 154

Question

Sponsored depository receipts *most likely* differ from unsponsored ones in terms of whether:

- A. investors have voting rights.
- B. they are traded on exchanges.
- C. their prices are affected by exchange rate movements.

Question 33 of 154

Question

All else being equal, which of the following are equivalent to stock dividends in terms of the economic effect on the company and shareholders?

- A. Stock splits
- B. Cash dividends
- C. Share repurchases

Question 34 of 154

Question

Asset-based valuation *most likely* uses estimates of the company's:

- A. assets only.
- B. assets and liabilities only.
- C. assets, liabilities and projected cash flow.

Question 35 of 154

Question

The dividend discount model assumes that dividends are paid:

- A. quarterly.
- B. half yearly.
- C. at the end of each year.

Question 36 of 154

Question

An analyst gathers the following information about a company and its common stock:

Forward P/E 8

Required rate of return 12%

Dividend growth rate 4%

Using the Gordon growth model, the company's dividend payout ratio is *closest* to:

- A. 8%.
- B. 33%.
- C. 64%.

Question 37 of 154

Question

Asset-based valuation models are *most* appropriate for companies with a high proportion of:

- A. illiquid assets.
- B. current assets.
- C. intangible assets.

Question 38 of 154

Question

Both equity and fixed income indexes can be categorized according to the:

- A. currency of payments.
- B. issuer's economic sector.
- C. degree of inflation protection.

Question 39 of 154

Question

Trading by arbitrageurs *most likely*:

- A. reduces liquidity.
- B. increases pricing discrepancies.
- C. contributes to market efficiency.

Question 40 of 154

Question

A feature of an efficient market is that:

- A. the market reflects all past and present information.
- B. asset prices react to information that is fully anticipated.
- C. an investor can earn consistent, superior, risk-adjusted returns.

Question 41 of 154

Question

Decreased market efficiency is *most likely* associated with an increase in:

- A. transaction costs.
- B. financial disclosure.
- C. the number of market participants.

Question 42 of 154

Question

Which of the following is *most likely* a demographic influence on industry growth?

- A. Lifestyle
- B. Distribution of age
- C. Spending behavior

Question 43 of 154

Question

Fixed-income indexes *most likely*:

- A. are more easily replicated than equity indexes.
- B. require the provider to estimate the prices of some constituent securities.
- C. are created from a smaller universe of possible constituent securities than the universe of equity securities.

Question 44 of 154

Question

As time passes after inception, the value of the price version of an index is:

- A. less than the value of the total return version.
- B. equal to the value of the total return version.
- C. greater than the value of the total return version.

Question 45 of 154

Question

With respect to behavioral finance, which of the following is *least likely* a behavioral bias used to explain pricing anomalies?

- A. Risk aversion
- B. Loss aversion
- C. Overconfidence

Question 46 of 154

Question

Companies issue equity securities for which of the following purpose(s)?

- A. Making acquisitions only
- B. Ensuring that debt covenants are met only
- C. Both making acquisitions and ensuring that debt covenants are met

Question 47 of 154

Question

The voting method that allows shareholders to cast all their votes for a single candidate is *best* described as:

- A. proxy voting.
- B. statutory voting.
- C. cumulative voting.

Question 48 of 154

Question

Convertible preference shares *most likely*:

- A. are riskier than the underlying common shares for investors.
- B. allow investors to benefit from a rise in the price of the common shares.
- C. are issued primarily by companies of lower risk and used as a financing option.

Question 49 of 154

Question

Industries whose revenues and profits are *least affected* by fluctuations in the overall economy are *most likely*:

- A. growth industries.
- B. cyclical industries.
- C. defensive industries.

Question 50 of 154

Question

If it is difficult to find a buyer or a seller for an asset, the asset *most likely* trades on:

- A. brokered markets.
- B. order-driven markets.
- C. quote-driven markets.

Question 51 of 154

Question

A disadvantage of using price multiples to value stocks is that:

- A. multiples are not easily calculated.
- B. cross-sectional comparisons are not possible.
- C. accounting methods produce different results that are not easily comparable across companies.

Question 52 of 154

Question

All else being equal, an increase in which of the following *most likely* increases a company's enterprise value?

- A. Book value of debt
- B. Market value of investments
- C. Market value of preferred stock

Question 53 of 154

Question

The Global Industry Classification Standard (GICS) classifies industries based on:

- A. statistical similarities.
- B. business-cycle sensitivities.
- C. products and/or services supplied.

Question 54 of 154

Question

Which of the following indexes is composed of futures contracts?

- A. Commodity index
- B. Hedge fund index
- C. Broad equity market index

Question 55 of 154

Question

External factors affecting an industry's growth *most likely* include:

- A. cost structures.
- B. economies of scale.
- C. technological influences.

Question 56 of 154

Question

Which of the following is *most likely* used to raise funds for a capital project?

- A. Equity issuance only
- B. A stock dividend only
- C. Both equity issuance and a stock dividend

Question 57 of 154

Question

In dividend payment chronology, the ex-dividend date *most likely* comes after the:

- A. record date.
- B. payment date.
- C. declaration date.

Question 58 of 154

Question

An analyst gathers the following information about an industry and three comparable companies within the industry:

	<u>Company 1</u>	<u>Company 2</u>	<u>Company 3</u>	<u>Industry Average</u>
Price/sales	8.9	3.2	5.7	6.2
Price/book	5.7	2.6	2.3	4.7

Based only on this information, the *most* overvalued company is:

- A. Company 1.
- B. Company 2.
- C. Company 3.

Question 59 of 154

Question

Which of the following industries or sectors is *most likely* classified as cyclical?

- A. Utilities
- B. Industrials
- C. Health care

Question 60 of 154

Question

An increase in shares held by controlling shareholders *most likely* impacts the constituent weightings of a(n):

- A. price-weighted index.
- B. equal-weighted index.
- C. float-adjusted market-capitalization-weighted index.

Question 61 of 154

Question

Free-cash-flow-to-equity is equal to cash flow from operations:

- A. less fixed capital investment less net borrowing.
- B. less fixed capital investment plus net borrowing.
- C. plus fixed capital investment less net borrowing.

Question 62 of 154

Question

Over time, which of the following indexes *most likely* has portfolio weights that shift away from securities that have increased in relative value and toward securities that have fallen in relative value? A:

- A. price-weighted index
- B. fundamentally weighted index
- C. market-capitalization-weighted index

Question 63 of 154

Question

An analyst gathers the following data for three companies in the same industry (in millions):

Company	Enterprise Value (EV)	Earnings Before Interest, Taxes, Depreciation, & Amortization (EBITDA)
1	\$100	\$8
2	\$150	\$10
3	\$200	\$15

Based on enterprise value multiples, which of the three companies is likely the *most* undervalued?

- A. Company 1
- B. Company 2
- C. Company 3

Question 64 of 154

Question

Which of the following statements *best* describes hedge fund indexes?

- A. Index constituents are regulated entities
- B. Potential survivorship bias is reduced by voluntary performance reporting
- C. There may be little overlap in index constituents between different indexes offered by different index providers

Question 65 of 154

Question

A market where security prices fully reflect all publicly known and available information, but not private information, is:

- A. weak-form efficient.
- B. semi-strong-form efficient.
- C. strong-form efficient.

Question 66 of 154

Question

In a highly efficient market, a passive investment strategy *most likely* has:

- A. higher transaction costs than an active strategy.
- B. lower information-seeking costs than an active strategy.
- C. higher risk-adjusted returns before all expenses than an active strategy.

Question 67 of 154

Question

Fundamental analysis *most likely*:

- A. uses stock price patterns to trade.
- B. is an input for passive portfolio management.
- C. helps participants understand the value implications of information.

Question 68 of 154

Question

Which of the following is considered an external influence on industry growth?

- A. Social trends
- B. Barriers to entry
- C. Industry concentration

Question 69 of 154

Question

In a weak-form efficient market, which of the following information is reflected in security prices?

- A. Historical prices only
- B. Historical prices and historical trading volumes only
- C. Historical prices, historical trading volumes, and current earnings

Question 70 of 154

Question

Security market indices *most likely* serve as proxies for:

- A. nonsystematic risk.
- B. asset classes in asset allocation models.
- C. the fair value of assets in asset-based valuation models.

Question 71 of 154

Question

When constructing an equity index, each company's weight in the index is dependent on its number of shares outstanding if the index is:

- A. price weighted.
- B. equal weighted.
- C. market-capitilization weighted.

Question 72 of 154

Question

All else being equal, which of the following preference shares pays the lowest dividend?

- A. Putable
- B. Callable
- C. Non-callable

Question 73 of 154

Question

When an investment bank guarantees the sale of an entire issue at a negotiated offering price, this *best* describes a(n):

- A. rights offering.
- B. best effort offering.
- C. underwritten offering.

Question 74 of 154

Question

Management is more likely to focus on short-term results instead of long-term earnings growth if a company raises equity through:

- A. venture capital.
- B. a leveraged buyout.
- C. an initial public offering.

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Question

An analyst gathers the following information about a security index:

<u>Period</u>	<u>Return</u>
	<u>(%)</u>

1	12
2	-8
3	2

If the index's value is 100 at the beginning of Period 1, the index's value at the end of Period 3 is *closest* to:

- A. 103.
- B. 105.

c. 106.

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Question

If the cost to fill trades increases, the market's informational efficiency *most likely*:

- A. decreases.
- B. remains the same.
- C. increases.

Question 77 of 154

Question

An analyst gathers the following information about a company and the economy:

Current share price	€36
P/E ratio	22
Nominal risk-free rate	2.5%
Risk premium	6.0%
Expected retention rate	60%

The *best* estimate of the company's dividend growth rate is:

- A. 5.8%.
- B. 6.7%.
- C. 7.4%.

Question 78 of 154

Question

Financial intermediaries that help their clients arrange seasoned securities offerings are *best* known as:

- A. investment banks.
- B. commercial banks.
- C. multi-lateral trading facilities.

Question 79 of 154

Question

Over the long run, if a market is semi-strong-form efficient, which of the following investment strategies should result in the highest return to investors? A(n):

- A. passive investment strategy
- B. active trading strategy seeking to exploit price patterns
- C. active trading strategy seeking to exploit public information

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Question

A multi-market index is *most* appropriately used as a benchmark:

- A. for a single country ETF.
- B. for a small-capitalization growth stock manager.
- C. to calculate beta for the portfolio of a global stock manager.

Question 81 of 154

Question

Industry classification systems are developed and used by:

- A. commercial entities only.
- B. governmental agencies only.
- C. both commercial entities and governmental agencies.

Question 82 of 154

Question

An investor gathers the following information about a company and its common stock:

Current dividend per share ( $D_0$ ) \$1.00

Dividend payout ratio 60%

ROE 12%

If the required rate of return is 10%, using the Gordon growth model, the intrinsic value per share of the stock is *closest* to:

- A. \$14.56.
- B. \$19.23.
- C. \$20.15.

Question 83 of 154

Question

According to the efficient market hypothesis, if market prices reflect private information, the market is *most likely*:

- A. strong-form efficient.
- B. weak-form efficient only.
- C. semi-strong-form efficient, but not strong-form efficient.

Question 84 of 154

Question

The Global Industry Classification Standard's broadest level of classification is a(n):

- A. sector.
- B. industry.
- C. industry group.

Question 85 of 154

Question

In which of the following forms of market efficiency are investors able to consistently outperform the market using fundamental analysis?

- A. Weak-form market efficiency
- B. Semi-strong-form market efficiency
- C. Strong-form market efficiency

Question 86 of 154

Question

Which of the following indexes are regularly rebalanced by the index provider?

- A. Price-weighted indexes only
- B. Equal-weighted indexes only
- C. Both price-weighted indexes and equal-weighted indexes

Question 87 of 154

Question

Which of the following *best* describes an industry-level force in a thorough industry analysis?

- A. Threat of new entrants
- B. Demographic influences
- C. Technological influences

Question 88 of 154

Question

An analyst gathers the following information about a price-weighted index composed of three stocks:

Stock	Outstanding Shares	Beginning of Period Price	Dividends per Share	End of Period Price
1	10,000	\$25.00	\$2.00	\$20.00
2	40,000	\$10.00	\$0.50	\$13.50
3	50,000	\$10.00	\$0.00	\$14.00

The index's price return is *closest* to:

- A. 5.6%.
- B. 11.1%.
- C. 25.2%.

Question 89 of 154

Question

Commercial industry classification systems are *most likely* updated:

- A. less frequently than government classification systems.
- B. as frequently as government classification systems.
- C. more frequently than government classification systems.

Question 90 of 154

Question

A company's net income available to ordinary shareholders divided by the average total book value of equity is *best* described the:

- A. company's intrinsic value.
- B. company's return on equity.
- C. minimum required rate of return of investors in the company's equity.

Question 91 of 154

Question

A world equity index is *most likely* considered a:

- A. style index.
- B. sector index.
- C. multi-market index.

Question 92 of 154

Question

All else being equal, which of the following preference share characteristics may contain provisions that entitle shareholders to an additional distribution of the company's assets upon liquidation, above the par value?

- A. Callable
- B. Cumulative
- C. Participating

Question 93 of 154

Question

A three-stage dividend discount model is *most* appropriate for valuing a company that is:

- A. mature.
- B. transitioning to maturity.
- C. young and entering the growth phase.

Question 94 of 154

Question

A company's management is *most likely* able to directly influence the company's:

- A. book value.
- B. market value.
- C. intrinsic value.

Question 95 of 154

Question

In contrast to the market value of an equity security, intrinsic value is *most likely*:

- A. not known with certainty.
- B. constant throughout the life of the security.
- C. determined by the intersection of supply and demand.

Question 96 of 154

Question

Short sellers are *most likely* exposed to:

- A. unlimited gains and limited losses.
- B. limited gains and unlimited losses.
- C. unlimited gains and unlimited losses.

Question 97 of 154

Question

In which markets are government bills *most likely* traded?

- A. Money markets
- B. Capital markets
- C. Alternative investment markets

Question 98 of 154

Question

Enterprise value is *most likely* associated with:

- A. multiplier models.
- B. present value models.
- C. asset-based valuation models.

Question 99 of 154

Question

A characteristic of real assets is that they *most likely*:

- A. trade in liquid markets.
- B. are inexpensive to manage.
- C. are unique assets with different attributes.

Question 100 of 154

Question

If a European investor believes the US equity market will decline in the next three months, the transaction *most likely* to allow the investor to profit from this view is the purchase of a:

- A. put option.
- B. call option.
- C. currency swap.

Question 101 of 154

Question

If the ability of clients to identify competent agents increases, the need for regulation *most likely*:

- A. decreases.
- B. remains the same.
- C. increases.

Question 102 of 154

Question

An analyst gathers the following book value information about a company and its common shares:

Inventories	€20 million
Net fixed assets	€80 million
Total assets	€150 million
Total liabilities	€90 million
Shares outstanding	4 million

The analyst estimates the market value of net fixed assets to be 125% of book value and the market value of inventories to be 90% of book value. If the stock is currently trading at €19.50 per share, the asset-based value per share is *most likely*:

- A. less than the market price.
- B. equal to the market price.
- C. greater than the market price.

Question 103 of 154

Question

The book value of a company's equity is:

- A. the present value of its future cash flows.
- B. the difference between its total assets and total liabilities.
- C. its share price multiplied by the number of outstanding shares.

Question 104 of 154

Question

A company's ROE *most likely* decreases if shareholders' equity increases at:

- A. a lower rate than net income.
- B. the same rate as net income.
- C. a higher rate than net income.

Question 105 of 154

Question

An equity index representing groups of securities classified on the basis of market capitalization is *most likely* a:

- A. style index.
- B. sector index.
- C. multi-market index.

Question 106 of 154

Question

An analyst gathers the following information about common shares:

	<u>Company</u> <u>Peer Group</u>	
Dividend payout ratio	40%	50%
Estimated future dividend growth rate	5%	4%

If the investor's required rate of return is 9%, the company's justified forward P/E is:

- A. less than the peer group's justified forward P/E.
- B. the same as the peer group's justified forward P/E.
- C. greater than the peer group's justified forward P/E.

Question 107 of 154

Question

An analyst gathers the following information about a company's shares:

Dividend payable per share	\$0.50
Ex-date	20 August
Closing share price on 19 August	\$29.00

All else being equal, at the beginning of trading on 20 August, the company's shares will *most likely* trade at:

- A. \$28.50.
- B. \$29.00.
- C. \$29.50.

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Question

An analyst gathers the following information about a company's dividend payment chronology:

Ex-dividend date	2 August
Holder-of-record date	5 August

The last date an investor can purchase the company's stock and be entitled to receive the dividend is *most likely*:

- A. 1 August.
- B. 2 August.
- C. 4 August.

Question 109 of 154

Question

The January effect is an example of:

- A. loss aversion.
- B. an earnings surprise.
- C. a market pricing anomaly.