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CFA Institute[®]
CFA Program

CFA LEVEL I



Premium Practice Pack

Equity Investments and Ethical and
Professional Standards

Book 3

CFA Level 1 - Premium Practice Pack - 2026

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Equity Investments Questions

Question 1

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

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

Question 2

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

Question 3

If securities are purchased on margin with a maximum leverage ratio of 1.75, the minimum margin requirement is closest to:

- A. 43%.
- B. 57%.
- C. 75%.

Question 4

When a company raises common equity capital in the public market, the company most likely:

- A. moves money from the present to the future.
- B. agrees to make scheduled distributions in the future.
- C. is required to meet regulatory reporting requirements.

Question 5

A trader reports the following information about an equity investment which was sold after 1 year:

Number of shares purchased	2,000
Leverage ratio	3
Purchase price per share	\$12.00
Sale price per share	\$9.50
Call money rate per year	3%

The trader's equity value as a result of the trade is closest to:

- A. \$460.

- B. \$2,520.
- C. \$3,000.

Question 6

Order matching rules in order-driven trading systems are used to:

- A. match buy orders to sell orders.
- B. determine the prices at which the orders submitted by dealers are matched.
- C. determine the prices at which the orders submitted by customers are matched.

Question 7

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 8

Which of the following is an objective of market regulation?

- A. Controlling agency problems only
- B. Ensuring that long-term liabilities are funded only
- C. Both controlling agency problems and ensuring that long-term liabilities are funded

Question 9

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 10

When issuers sell securities to investors:

- A. they trade in the primary market.
- B. they trade in the secondary market.
- C. funds flow between the primary and the secondary market.

Question 11

If the price of a stock bought on 30% margin increases by 40%, the return on equity to the buyer is closest to:

- A. 52%.