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A member or candidate who pays the highest brokerage commission than he would normally pay to the purchase of service without corresponding benefit to the client, violates the duty of:

- A. loyalty to the client.
- B. fair dealing to the clients.
- C. diligence and reasonable basis to the clients.

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With respect to the acceptance of gifts, the CFA Institute:

- A. discourages customary business-related entertainment.
- B. encourages setting a strict value limit for acceptable gifts.
- C. encourage accepting gifts from parties other than clients.

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Which of the following statements is *least likely* correct?

- A. Earning community trust delivers commercial benefits.
- B. Earning community trust creates professional pride and acceptance.
- C. Earning community trust encourages greater dependence on government regulations.

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Firms providing market-making services while possessing material nonpublic information on clients undertaking an IPO should:

- A. withdraw from their market-making activities.
- B. make reasonable efforts to achieve public dissemination of the information.
- C. continue their market-making activities while remaining passive to the market.

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If members and candidates have custody of client's assets, they must manage them in accordance with:

- A. some benchmark indices.
- B. terms of governing documents.
- C. each asset's risks and return characteristics.

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Upon receiving a written complaint, the CFA Institute Designated Officer conducts an investigation and discovers that a violation of the Code and Standards has occurred. If the designated officer issues a disciplinary sanction, the member or candidate:

- A. can reject it.
- B. must accept it.
- C. will receive a cautionary letter.

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According to the CFA Institute Standards of Professional Conduct, a firewall is required to:

- A. prohibit employees from front running their client trades.
- B. prohibit personnel from sharing confidential client information on clients outside their department.
- C. control communications between the investment banking and corporate finance areas of a brokerage firm.

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Common situational influences in the investment industry that can shape thinking and behavior *least likely* include:

- A. fear.
- B. money.
- C. loyalty.

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Which of the following is *least likely* the code of ethics?

- A. Promote the integrity of and uphold the rules governing capital markets.
- B. Maintain and improve professional competence and strive to maintain and improve the competence of other investment professionals.
- C. Deal fairly and objectively with all clients when providing investment analysis, making investment recommendations or taking investment actions.

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The Code and Standards require members and candidates to make a reasonable inquiry into a client's risk and return objectives and financial constraints prior to making investment recommendations and taking investment action for:

- A. clients with a stated mandate, strategy or style only.
- B. members or candidates in an investment advisory relationship only.
- C. clients with a stated mandate, strategy or style and members or candidates in an investment advisory relationship.

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Reginald Fuller manages institutional portfolios on behalf of BDY Advisors. Fuller also manages an account of a trust company named SOTO Trust. The trust offered Fuller a \$50,000 cash gift if he succeeded in achieving a 20% return this year. The best practice for Fuller includes:

- A. refusing the offer of SOTO trust to avoid a conflict of interest with his employer.
- B. accepting the offer and achieving the target without compromising his objectivity towards other clients.
- C. making an immediate written report to his employer specifying the \$50,000 cash offer proposed by the trust.

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GIPS verification:

- A. provides testing of a firm on composite-wide basis.
- B. does ensure the accuracy of any specific firm wide presentation.
- C. provides assurance that GIPS standards have been implemented on a firm-wide basis.

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By complying with GIPS standards firms cannot:

- A. eliminate the need for in-depth due diligence on the part of the investor.
- B. participate in competitive bids against other compliant firms throughout the world.
- C. assure prospective clients that the reported historical track record is complete and fairly presented.

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GIPS standards *least likely* resolve misleading practices related to:

- A. survivorship bias.
- B. varying time periods.
- C. analyst financial statement adjustments.

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Paul Williams is manager of a large closed end fund. In order to fulfil his duty of loyalty with clients regarding proxy voting, what is the *most likely* required action under Code and Standards? Williams:

- A. should vote all proxies for every client.
- B. should disclose to clients his proxy voting policies.
- C. can vote some proxies blindly on non-routine governance issues.

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According to CFA Institute *Standards of Practice Handbook*, recommended procedures for block trade and new issues *least likely* include:

- A. processing and executing bundling orders on FIFO basis for efficiency purposes.
- B. giving same execution price and charging same commission for all clients participating in block trade.
- C. prohibiting partial fills when trades are grouped and requiring cancellation of orders to be documented and time stamped.

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Which of the following is *least likely* required by the CFA Institute Code of Ethics? Members and candidates must:

- A. strive to maintain and improve the competence of their clients.
- B. practice and encourage others to practice in a professional and ethical manner.
- C. place the integrity of investment profession and interests of clients above their own personal interests.

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Which of the following statements is *most likely* correct regarding GIPS standards?

- A. Compliance with the GIPS standards is typically required by legal and regulatory authorities.
- B. Plan sponsors and consultants can make a claim of compliance if they are actually managing assets.
- C. An investment management firm complying with a majority of the requirements of GIPS can make reference to the GIPS standards.

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In preparing an investment policy statement and suitability analysis, if a client refuses to provide complete information regarding his financial position, the *most suitable* action for a member or candidate is to:

- A. consult the legal and compliance advisors for guidance.
- B. develop an investment policy statement on the basis of information provided.
- C. disclose in writing the impact of withholding information and obtain client approval.

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According to the CFA Institute Standards of Practice Handbook, which of the following compliance procedures are members and candidates *least likely* recommended to consider?

- A. Prohibiting employee participation in equity-related IPOs.
- B. Offering different levels of service to clients on a selective basis.
- C. Limiting the number of employees who will know that a recommendation is to be disseminated.

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When managing pooled assets to a specific mandate, investment manager ('s):

- A. actions are not governed by the suitability standard.
- B. must consider the suitability of an investment for clients.
- C. need not consider the suitability of an investment for clients.

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According to the Standards of Practice Handbook, an investment manager who learns that his client is engaged in an illegal activity should:

- A. seek legal counsel.
- B. inform legal authorities.
- C. disclose the activity to the CFA Institute.

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According to the Standards of Practice Handbook, adequate compliance procedures are *least likely* those that:

- A. meet industry standards.
- B. are uniform on a global basis.
- C. can be tailored to the circumstances of a firm.

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Conduct that constitutes a violation of the CFA Institute Standards of Professional Conduct concerning 'Conduct as Members and Candidates in the CFA Program' includes:

- A. cheating on an MBA exam.
- B. soliciting employer clients prior to departing.
- C. not following security measures implemented for the CFA exam.

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Which of the following is *most likely* correct with regard to Standard V(C): Investment Analysis, Recommendations, and Actions – Record Retention? Members and candidates:

- A. must retain records for 7 years for all investment decisions.
- B. must retain records for reviews that do not lead to a buy or sell decision.
- C. cannot take the property of the firm to the new employer with express consent of the old employer.

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An analyst's investment recommendation and opinions with regard to selling, purchasing and holding securities, disseminated to customers through oral communication is:

- A. not allowed according to CFA Institute *Standards of Practice Handbook*.
- B. only allowed if the information has already been disseminated through other communication channels as well.
- C. allowed according to CFA Institute *Standards of Practice Handbook* if the firm has such a dissemination policy for its customers.

Question 27 of 90

Which of the following statements is *most likely* correct under the Code and Standards?

- A. Members and candidates can use unsound third-party research.
- B. Steps taken in developing a diligent recommendation should eliminate unexpected downside events.
- C. Information taken from internet sources, such as social media websites, can be used in investment recommendation for clients.

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According to Standard II-A 'Material Non-Public Information', if a member or candidate determines that information is material, he should make reasonable efforts to:

- A. achieve public dissemination of the information.
- B. alter current investment recommendations for clients.
- C. protect information from those who can possibly act on that information.

Question 29 of 90

In order to assure fair dealing, members and candidates should issue an investment recommendation:

- A. to all its clients first followed by within the firm.
- B. simultaneously both within the firm and to all its clients.
- C. simultaneously to both suitable clients and within the firm.

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Under US GAAP, compared to an operating lease, a lessee that makes use of a finance lease will *most likely* report higher:

- A. total net income.
- B. operating income.
- C. cash flows from financing.

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Which of the following policies will overstate the profitability in the current year?

- A. Excessive write-downs of long-term assets.
- B. Lengthening the depreciable lives of assets.
- C. Adopting a LIFO inventory cost flow assumption.

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In periods of falling prices and assuming no liquidation, LIFO reports the *lowest*:

- A. income taxes.
- B. ending inventory.
- C. cost of goods sold.

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The management of a company will be revising the value of its inventory upwards to reflect the reversal of a recent write-down. The reversal will *most likely* increase:

- A. the quick ratio.
- B. gross profit margin.
- C. inventory turnover.

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Under IFRS, inventories are carried at:

- A. the lower of cost or market.
- B. market value, unless net realizable value is less.
- C. historical cost, unless net realizable value is less.

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A pharmaceutical firm has submitted a new drug application(NDA) to FDA. An analyst estimates that the odds for the successful approval of the drug are 1 to 4 and the firm's estimated EPS for the FY202X is \$15 if FDA accepts NDA and \$7 if FDA rejects NDA.

Firm's expected EPS for FY202X is *closest* to:

- A. \$8.6.
- B. \$9.0.
- C. \$11.2.

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When valuation allowance increases:

- A. net income remains unchanged.
- B. deferred income tax expense increases.
- C. reported deferred tax asset remains unchanged.

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When economy is in recovery phase, actual output is:

- A. below potential output and the positive output gap will begin to narrow.
- B. at its lowest relative to potential output and will tend to close the negative output gap.
- C. at its highest relative to potential output and will tend to narrow the positive output gap.

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Which of the following is *most likely* common among the assumptions of the Ricardian model and Heckscher-Ohlin model?

- A. Labor is a variable factor of production.
- B. Capital is not a variable factor of production.
- C. There are homogenous products and homogenous inputs.

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Which of the following indicators is used to measure the average standard of living in a country?

- A. GDP deflator
- B. Nominal GDP
- C. Per capital real GDP

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Which of the following is *least likely* a consequence of a period of hyperinflation?

- A. Too much money in circulation.
- B. People are eager to change their cash into real goods.
- C. Reduced supply of money but increased velocity of money.

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Over the last year, the Japanese yen (base currency) has appreciated 15.7% against pound sterling (GBP). The depreciation of GBP against the Japanese yen will be *closest* to:

- A. 13.6%.
- B. 15.7%.
- C. 18.6%.

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To determine the impact of changes in exchange rates on trade balance, the 'absorption approach' *most likely* exhibits the:

- A. effect of changing the relative price of domestic and foreign goods.
- B. effect of exchange rates on aggregate expenditure or saving decisions.
- C. microeconomic view of the relationship between exchange rates and trade balance.

Question 43 of 90

Under perfect competition, a firm:

- A. is a price taker at any quantity supplied to the market.
- B. breaks even when marginal revenue equals average variable cost.
- C. should shut down production when marginal revenue is less than average fixed cost.

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A lognormal distribution:

- A. is bounded below by 1 and has a long right tail.
- B. is not completely described by two parameters (the mean and the variance).
- C. describes a stock price whose continuously compounded returns follow a normal distribution.

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A property and potential benefit of using arithmetic mean is its ability to:

- A. handle extreme values.
- B. focus on the relative positions of the ranked observations.
- C. use all the data about the size and magnitude of the observations.

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The efficiency of an unbiased estimator is measured by its:

- A. variance.
- B. sample size.
- C. mean value.

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Which of the following *best* characterizes one of the assumptions underlying linear regression?

- A. The regression residuals are normally distributed.
- B. The dependent variable is uncorrelated with the independent variable.
- C. The residual for one observation is linearly correlated with that of another observation.

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An analyst gathered the following information about return distributions of two portfolios.

	Kurtosis	Skewness
Portfolio A	2.5	-3.7
Portfolio B	1.3	+4.2

Which of the following statements is *most likely* correct regarding portfolio A and B?

- A. Portfolio A is more peaked than normal distribution.
- B. For portfolio B, mean value is higher than median value.
- C. Distribution of portfolio A has frequent small losses and few large gains.