2026 CFA Program LI Mock Exam 1 Session 1 (Practice)

Question 1:

Jolene Campbell, CFA, a well-known analyst, is working on a report about XLK Autos (XLK). XLK is developing a fuel-efficient car about which no public information is yet available. Campbell uses financial data and information gathered from automobile experts not connected to XLK about the commercial viability of XLK's project. She then issues a “buy” recommendation on the stock. Campbell sends her report exclusively to her firm's clients even though she expects her report to impact XLK's stock price. Has Campbell most likely violated the Standard relating to material nonpublic information?

A. No
B. Yes, because she uses information that is not yet public
C. Yes, because she fails to make her recommendation public

Question 2:

Rex Leopold, CFA, is a financial advisor. Leopold plans to leave his current employer to start his own competing business. During non-business hours, and before giving notice of termination to his current employer, Leopold undertakes preparations to start his own firm, including procuring the appropriate regulatory approvals, leasing office space, and hiring an office manager. Has Leopold most likely violated the Standards?

A. No.
B. Yes, the Standard relating to loyalty.
C. Yes, the Standard relating to misconduct.

Question 3:

A member holds a supervisory position in an investment firm. Which of the following Standards recommends that the member regularly engages in informal continuing education so that professional responsibilities are fulfilled? The Standard relating to:

A. suitability.
B. competence.
C. responsibilities of supervisors.

Question 4:

The Standard relating to conduct as participants in CFA Institute programs prohibits candidates from:

A. discussing curriculum material with others.
B. expressing their disagreement with CFA Institute on its policies and procedures.
C. disclosing broad topical areas and formulas not tested on the CFA Level I exam.

Question 5:

A 12-year old investment firm adopts the GIPS standards. To claim compliance with the GIPS standards, the firm is initially required to present GIPS-compliant performance history:

A. for at least five years.
B. for at least ten years.
C. since the firm's inception date.

Question 6:

Toshi Hoda, CFA, is an analyst at a brokerage firm. Hoda holds shares in a company that he begins to cover. According to the Standard relating to avoid or disclose conflicts, Hoda is required to disclose his personal holdings to:

A. his employer only.
B. his employer and his firm's clients only.
C. his employer, his firm's clients, and prospective clients.

Question 7:

A firm claiming compliance with the GIPS standards:

A. can claim compliance on specific composites.
B. is responsible for maintaining that compliance.
C. must be verified by an independent third party.

Question 8:

In the absence of regulatory guidance, CFA Institute recommends that members maintain their investment research records for at least:

A. 3 years.
B. 5 years.
C. 7 years.

Question 9:

Based on his superior return history, Vijay Gupta, CFA, is interviewed by the First Faithful Church to manage the church’s voluntary retirement plan’s equity portfolio. Each church staff member chooses whether to opt in or out of the retirement plan according to his or her own investment objectives. The plan trustees tell Gupta that stocks of companies involved in the sale of alcohol, tobacco, gambling, or firearms are not acceptable investments given the objectives and constraints of the portfolio. Gupta tells the trustees he cannot reasonably execute the strategy he applies for his other clients with these restrictions and that all his other accounts hold shares of companies involved in these businesses because he believes they have the highest alpha. By agreeing to manage the account according to the trustees' wishes, does Gupta violate the CFA Institute Standards of Professional Conduct?

A. No
B. Yes, because the manager was hired based upon his previous investment strategy
C. Yes, because the restrictions provided by the Trustees are not in the best interest of the members

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Question 10:

According to the recommended procedures for compliance with the Standard relating to additional compensation arrangements, a member receiving additional compensation must disclose to his employer in writing:

A. the nature of the compensation only.
B. the approximate amount of the compensation only.
C. both the nature of the compensation and the approximate amount of the compensation.

Question 11:

Which of the following is a key concept relating to the GIPS standards? The GIPS standards:

A. address every aspect of performance measurement.
B. require firms to adhere to certain calculation methodologies to allow for comparability across firms.
C. require the inclusion of all discretionary and non-discretionary segregated accounts in at least one composite.

Question 12:

Joy Nash, CFA, resides in Country 1, where applicable law is less strict than the Standards. Nash does business in Country 2, where applicable law is less strict than in Country 1. According to the Standards, when doing business in Country 2, Nash must follow:

A. the Code and Standards.
B. applicable law of Country 1.
C. applicable law of Country 2.

Question 13:

Agnes Trimbach, CFA, works at an investment firm that serves individual investors. Trimbach recommends the purchase of German government bonds to a client. She tells the client: "The government guarantees that you will receive the promised principal and interest on the bonds. In addition, interest rate fluctuations could add to your gains or cause losses." Has Trimbach most likely violated the Standards?

A. No

B. Yes, the Standard relating to misrepresentation

C. Yes, the Standard relating to communication with clients and prospective clients

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Question 14:

Sandra Chen, CFA, works for a research firm, Vega. Chen's research group identifies a low volatility investment product as a viable risk reduction strategy. The group prepares a report based on its findings. Chen believes the analysis is thorough and discloses the associated risks. However, Chen disagrees with the findings because she believes the product will be more volatile than the report suggests. She agrees to have her name included in the report. Has Chen most likely violated the Standards?

A. No

B. Yes, because she failed to dissociate herself with the report

C. Yes, because she failed to include her dissenting opinion in the report

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Question 15:

Tomas Bo, CFA, an asset manager, receives an unsolicited stock order from a client. He discusses the order with his firm's analysts to determine how it will impact that client's portfolio. The analysts determine the stock to be undervalued and suitable for many of Bo's clients. Bo calls other clients for whom the stock is suitable to recommend the stock. He then executes a single block trade for the original client as well as other clients for whom the stock is suitable. Bo most likely violated the Standards:

A. only by executing the single block trade.

B. only by discussing unsolicited client orders with his analysts.

C. both by executing the single block trade and by discussing unsolicited client orders with his analysts.

Question 16:

Alan Quanta, CFA, provides credit rating analysis of high-yield bonds using external credit ratings as a foundation. At the end of the last quarter, Quanta's firm, North Investment Bank, held a large position in the bonds of Veyron Corporation, a real estate company with all of its land holdings in a country recently downgraded by several credit rating agencies. The downgrades made Veyron bonds extremely difficult to sell because the bond price has dropped every day since the downgrades. Quanta has been asked by his supervisor to contact the firm's institutional clients to convince them Veyron bonds are still an attractive purchase, especially at these lower prices. Quanta does not consider the Veyron bonds a buy at this price level. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, the most appropriate action for Quanta is to:

A. obey his supervisor's request.

B. ignore his supervisor's request.

C. promote the bonds with appropriate disclosures.

Question 17:

To increase market participants' interest and trading volume in a company's stock, an advisor buys the stock and immediately sells it without causing large price movements. The advisor then shares consensus analyst earnings estimates for the company on social media. Has the advisor most likely violated the Standard relating to market manipulation?

A. No
B. Yes, by widely sharing analyst earnings estimates for the company on social media
C. Yes, by buying and selling the company's stock to increase market participants' interest and trading volume

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Question 18:

Werner Merz, CFA, manages a short-term corporate bond mutual fund at a subsidiary of Cygnet Bank. The president of Cygnet Bank tells Merz that the bank needs to sell some of its long-term government bond holdings; however, because market prices are below their purchase price of 100, a loss would be realized. The president asks Merz to purchase these bonds for the mutual fund at 100, assuring him that the fund can hold the bonds to maturity and get a full return of the initial investment. Merz purchases the bonds for the fund at 100 as requested. Merz has most likely violated the Standard(s) relating:

A. only to suitability.
B. only to loyalty, prudence, and care.
C. both to suitability and to loyalty, prudence, and care.

Question 19:

A member presents investment performance to potential clients. According to the Standard relating to performance presentation, the member is permitted to omit which of the following in his presentation?

A. Only simulated results as a source of performance data.
B. Only supporting details of recommendations if the details are made available upon request.
C. Both simulated results as a source of performance data and supporting details of recommendations if the details are made available upon request.

Question 20:

Maria Bendez, CFA, is a well-known analyst. She sends her recommendations to all of her firm clients. However, Bendez does not disseminate her recommendations to the public even though she believes that her recommendations could affect security prices. A client calls her and says: “Maria, thank you! Every time you send me your recommendations, I think you provide me with an advantage over other market participants.” Has Bendez most likely violated the Standards? Maria Bendez, CFA, is a well-known analyst. She sends her recommendations to all of her firm clients. However, Bendez does not disseminate her recommendations to the public even though she believes that her recommendations couldaffect security prices. A client calls her and says:

“Maria, thank you! Every time you send me your recommendations, I think you provide me with an advantage over other market participants.” Has Bendez most likely violated theStandards?

A. No
B. Yes, the Standard relating to material nonpublic information
C. Yes, the Standard relating to material nonpublic information and the Standard relating to fair dealing

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Question 21:

Hina Khan, CFA, works with ABC Bank. Khan refers clients to other business units of ABC bank when clients need such services. She does not disclose to her clients the referral fee arrangement she has with the other business units as it is an arrangement within the bank. Has Khan violated the Standards?

A. No
B. Yes, the Standard relating to fair dealing
C. Yes, the Standard relating to referral fees

Question 22:

John Pedersen, CFA, writes in his firm's promotional material: Statement 1: "I passed all three CFA Program examinations in three consecutive years.” Statement 2: "Being a CFA charterholder, I am among the elite of investment professionals." Has Pedersen most likely violated the Standard(s)?

A. No
B. Yes, by making Statement 1 only
C. Yes, by making Statement 2 only

Question 23:

Which of the following is a recommended procedure for compliance with the standard relating to responsibilities of supervisors? Once a violation in the form of wrongdoing from an employee is discovered, a supervisor should do which of the following?

A. Avoid increasing supervision of the wrongdoer until the investigation is concluded
B. Place appropriate limitations on the wrongdoer pending the outcome of the investigation
C. Rely on an employee’s statement about the extent of a violation of the law if the employee gives written assurance that the wrongdoing will not reoccur

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Question 24:

Megan Chandra, CFA, allocates an oversubscribed IPO suitable for all the accounts she manages. Chandra does not allocate the IPO her mother’s standard fee-paying account or her husband’s non-fee-paying account. Has Chandra violated the Standards?

A. No
B. Yes, by not allocating the IPO allocation to her mother’s account
C. Yes, by not allocating the IPO allocation to both her husband’s and her mother’s accounts

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Question 25:

The Standard relating to communication with clients and prospective clients requires members to inform which of the following of significant risks and limitations to the investment decision-making process?

A. Clients only.
B. Prospective clients only.
C. Both clients and prospective clients.

Question 26:

According to the CFA Institute Code of Ethics, members are responsible for:

A. monitoring their firm's compliance with the Standards.
B. ensuring the professional competence of employees in their firm.
C. promoting the integrity of and upholding the rules governing capital markets.

Question 27:

Which of the following is an objective of the GIPS standards?

A. Establish financial regulation on a global basis
B. Promote investor interests and instill investor confidence
C. Encourage the development of national standards for calculating investment performance

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Question 28:

Which of the following statements is most accurate? Fintech applications:

A. can perform tasks at levels surpassing human capabilities.
B. eliminate the need for humans in providing investment advice to retail investors.
C. use models that outperform traditional statistical models in revealing linear relationships.

Question 29:

An analyst gathers the following information about three markets:

	Number of Sellers	**Non-price Competition**
Market 1	Many	None
Market 2	Few	Strong

	Number of Sellers	Non-price Competition
Market 3	Many	Strong

Which market is most likely monopolistically competitive?

A. Market 1
B. Market 2
C. Market 3

Question 30:

With respect to ESG analysis, which of the following is most likely categorized as a social issue?

A. Deforestation
B. Labor standards
C. Bribery and corruption

Question 31:

Tiered pricing is best described as:

A. charging different prices at different times.
B. charging different prices to different buyers.
C. combining a low price on a piece of equipment with high-margin pricing on repeat-purchase consumables.

Question 32:

Which of the following best describes a function of the International Bank for Reconstruction and Development?

A. Provides low interest rate loans to developing countries
B. Regulates cross-border trade relationships on a global scale
C. Lends foreign currencies on a temporary basis to address balance of payment issues

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Question 33:

As a result of an inventory write-down, which of the following financial ratios most likely decreases?

A. Quick ratio
B. Current ratio
C. Payables turnover ratio

Question 34:

Which of the following ranks geopolitical systems from the lowest to the highest level of globalization?

A. Autarky, bilateralism, hegemony
B. Autarky, hegemony, bilateralism
C. Bilateralism, hegemony, autarky

Question 35:

An analyst gathers the following information about a firm:

Cost of equity if no debt is issued	**12%**
Cost of debt	6%
Percent of debt in capital structure	30%

If there are no taxes, the WACC estimated using Modigliani–Miller Proposition II is closest to:

A. 10.2%.
B. 12.0%.
C. 14.6%.

Question 36:

A positively skewed unimodal distribution of returns most likely has:

A. a long tail on the left side.
B. a mode that is less than its mean.
C. frequent small gains and a few extreme losses.

Question 37:

Which of the following statements is most accurate?

Statement 1	**The IRR assumes reinvestment of cash flows at the required rate of return.**
Statement 2	IRR is strongly preferred when NPV and IRR rank two mutually exclusive projects differently.
Statement 3	NPV is zero when IRR equals the hurdle rate.

A. Statement 1
B. Statement 2
C. Statement 3

Question 38:

During the slowdown phase of the business cycle:

A. inflation decelerates.
B. business halts new orders.
C. business slows its rate of hiring.

Question 39:

An analyst gathers the following information (in £ millions) about a company's expenditures in developing an intangible asset for internal use:

Costs incurred during research phase	10
Development costs incurred after reaching technical feasibility	15

If all the criteria for capitalization have been met, the maximum amount of expenditures (in £ millions) eligible for capitalization is most likely:

A. 10.
B. 15.
C. 25.

Question 40:

Target capital structure is often expressed using book values of equity and debt because:

A. capital structure policy is aligned to measures used by third parties.
B. market values can fluctuate substantially and frequently impact the appropriate level of borrowing.
C. for management, the primary concern is the amount and types of capital invested in the company, not by the company.

Question 41:

Which of the following is most appropriate when assessing a company's ability to meet its long-term debt obligations?

A. Current ratio
B. Defensive interval ratio
C. Financial leverage ratio
