CFA-LEVEL-1 Q&As

CFA Level I Chartered Financial Analyst

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QUESTION 1

Which of the following are challenges to technical analysis?

I. Technical analysis involves a great deal of subjective judgement.

II. Technical analysis is heavily reliant on financial statements.

III.

The majority of studies have supported the Weak Form Efficient Market Hypothesis. IV. The standard rules that signal investment decisions can change over time.

V.

The majority of studies have concluded that securities prices do not move in trends.

VI.

Technical analysis assumes that supply-demand fluctuations lead to changes in securities prices.

A.

I, III, IV, V, VI

B.

I, II, IV, V,

C.

I, III, IV, V

D.

I, III, IV

E.

I, II, III, IV, V, VI

Correct Answer: C

Of the choices listed, only II and VI are not criticisms of technical analysis. While VI appears correct, it is not. In fact, both fundamental and technical analysis recognize the importance of supply and demand fluctuations. The difference is that technical analysis assumes that supply and demand are influenced by both rational and irrational factors, whereas the EMH assumes that investors are rational. Had choice VI been phrased as "technical analysis assumes that supply-demand fluctuations, which are caused in part by irrational forces, are the only determinants of shifts in securities prices," then it would be correct in this example.

QUESTION 2

High payout ratios are closely correlated with which of the following attributes?

A. The level of regulation in an industry.

B. The growth rate of earnings.

C. The level of competition in the industry.

D. More than one of these answers is correct.

E. All of these answers are correct.

F. Maturity of the industry.

Correct Answer: D

All but one of these answers is correct. Specifically, the dividend payout ratio is very closely related to the maturity of the industry, the level of competition in the industry, and the growth rate in earnings. Remember that all of these factors are interrelated. As an industry becomes more mature, competition becomes maximized, margins shrink, and the growth potential of the industry declines. This will lead to a decrease in positive NPV investment opportunities in the industry, forcing firms to increase the proportion of earnings paid out to shareholders in the form of dividends.

The level of regulation in an industry is not necessarily highly correlated with the dividend payout ratio of firms within the industry. For example, the financial services industry is very heavily regulated, yet firms within this sector do not pay a disproportionate amount of their earnings as dividends. However, he utility industry, also heavily regulated, pays a very high proportion of earnings as dividends.

QUESTION 3

Which of the following statements is most correct? The modified IRR (MIRR) method:

A. All of these answers are correct.

B. Calculates a return that is always less than the regular IRR.

C. Overcomes the problem of multiple rates of return.

D. Always leads to the same ranking decision as NPV for independent projects.

Correct Answer: C

MIRR assumes that cash flows from all projects are reinvested at the cost of capital, while the regular IRR assumes that the cash flows from each project are reinvested at the project\\'s own IRR. The MIRR is a better indicator of profitability because reinvestment at the cost of capital is generally more correct.

QUESTION 4

At the end of an accounting period, each expense that has been incurred but not yet paid should be recorded as ________.

A. a closing entry

B. an opening entry

C. an adjusting entry

D. a reversing entry

Correct Answer: C

Expenses should be recognized in the period in which they are incurred. In order to be consistent with the matching principle, an adjusting entry must be made to record the expense, regardless of whether it has been paid.

QUESTION 5

Under a monetary expansion, aggregate demand can be expected to ________.

A. stay the same

B. rise

C. fall, then rise

D. fall

E. rise, then fall

Correct Answer: B

Under a monetary expansion, individuals posses more money balances. Since they invest/save more and consume more, aggregate demand increases due to increased consumption.