

# CFA-LEVEL-1<sup>Q&As</sup>

CFA Level I Chartered Financial Analyst

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**QUESTION 1**

\_\_\_\_\_ policy may be used by government officials to deliberately generate a budget deficit.

- A. Discretionary fiscal
- B. Active fiscal
- C. Discretionary monetary
- D. Active monetary

Correct Answer: A

Discretionary fiscal policy is defined as policymakers instituting deliberate changes in tax laws or spending on government programs that are designed to generate a budget deficit. Deficits emanating from this source are referred to as active budget deficits.

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**QUESTION 2**

Sal Nunn, CFA, is a portfolio manager at Walker Investments. Nunn sold 300,000 shares of a NASDAQ listed stock on an electronic crossing network in after hours trading because the company announced a significant negative earnings surprise. Indicate whether the third or fourth market best describes the Nunn trade and state whether the NASDAQ market is a call or continuous market.

- A. Nunn's trade is in the third market and NASDAQ is a call market.
- B. Nunn's trade is in the fourth market and NASDAQ is a call market.
- C. Nunn's trade is in the fourth market and NASDAQ is a continuous market.

Correct Answer: C

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**QUESTION 3**

What is the Net Present Value of this series of annual cash flows using an interest rate of 15% per year: Year 0: , Year 1: \$5,000, Year 2: \$8,000, Year 3: \$11,000? (Note that the are used to indicate a negative number).

- A. \$2,589.11
- B. \$3,104.37
- C. \$2,981.21
- D. \$5,077.49
- E. \$2,629.65

Correct Answer: E

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On the BAII Plus, press CF 2nd CLRWork 15000 +/- ENTER DownArrow 5000 ENTER DownArrow DownArrow 8000 ENTER DownArrow DownArrow 11000 ENTER DownArrow DownArrow 2nd Quit. Then press NPV 15 ENTER DownArrow CPT. On the HP12C, press these keys: 15000 CHS BlueShift CFo 5000 BlueShift CFj 8000 BlueShift CFj 11000 BlueShift CFj Then press 15 i, YellowShift NPV. The "DownArrow" represents the downward-pointing arrow on the top row of the BAII Plus keyboard. Make sure the BAII Plus has the P/Y value set to 1.

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#### QUESTION 4

What is the area under the normal curve between  $z = 1.0$  and  $z = 2.0$ ?

- A. 1.0000
- B. 0.1359
- C. None of these answers
- D. 0.7408
- E. 0.4772

Correct Answer: B

From the z-tables,  $z = 1$  is 0.3413 and  $z = 2$  is 0.4772. So the area in between is  $0.4772 - 0.3413 = 0.1359$ .

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#### QUESTION 5

A stock that you are considering for purchase has the following characteristics:

Current dividend \$2.00

Expected dividend in 1 year \$2.20

Long term growth rate of dividends 10%

Required rate of return 14%

Using the infinite period Dividend Discount Model, what is the maximum price that you would pay for this stock?

- A. \$10.00
- B. \$12.00
- C. \$120.00
- D. \$15.00
- E. \$55.00
- F. \$150.00

Correct Answer: E

The infinite period Dividend Discount Model indicates that:

Value = (Dividend for period 1)/(k-g) where k is the required rate of return and g is the growth rate. In this case Value =  $(\$2.20)/(.16-.10) = \$2.20/.04 = \$55$ .

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