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Topic Break Down

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Topic 1, Ethics	462
Topic 2, Quantitative Methods	744
Topic 3, Economics	264
Topic 4, Financial reporting and Analysis	1035
Topic 5, Corporate Finance	575
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Total	3960

QUESTION NO: 1

If you want $1,000,000 when you retire in 25 years, how much must you deposit each month, beginning one month from today, if your funds will earn 9% per year, compounded monthly?

A. $7,336.35

B. $903.59

C. $$29,848.16

D. $891.96

E. $29,848.16

ANSWER: D

Explanation:

Note that since the deposits are made monthly, there are 300 of them (25 x 12 = 300). On the BAII Plus, press 300 N, 9 divide 12 = I/Y, 0 PV, 1000000 FV, CPT PMT. On the HP12C, press 300 n, 9 ENTER 12 divide i, 0 PV, 1000000 FV, PMT. Note that the answer will be displayed as a negative number. Make sure the BAII Plus has the value of P/Y set to 1.

QUESTION NO: 2

When formulating an investment policy for a client, which of the following falls under the category

"client identification?"

A. risk tolerance

B. none of these answers

C. type and nature of clients

D. expected cash flows

E. investable funds

ANSWER: C

Explanation:

"Client identification" requires that the type and nature of clients be considered. Risk tolerance is considered under "investor objectives." Investable funds and expected cash flows are considered under "investor constraints."

QUESTION NO: 3

All of the following comments about the capital budget post auditing process are correct EXCEPT:

A. After the initial capital budgeting decision is made, the company should follow up and compare the actual results to the projected results.

B. The project managers should explain large variances (projection versus actual).

C. The function of the post audit includes improving forecasting and operations.

D. One of the purposes of the post-audit process is to limit risky projects.

ANSWER: D

Explanation:

The role of the post-audit process is to follow-up on capital budgeting decisions and to track results. The process is not meant to limit the capital projects; the company will still want to accept projects based on the decision rules for net present value (NPV), internal rate of return (IRR), and other valuation methods (using internal and external benchmarks).

QUESTION NO: 4

Ten experts rated a newly developed chocolate chip cookie on a scale of 1 to 50. Their ratings were: 34, 35, 41, 28, 26, 29, 32, 36, 38 and 40. What is the mean deviation?

A. 12.67

B. 4.12

C. 0.75

D. 8.00

E. None of these answers

ANSWER: B

Explanation:

The mean is 33.9. The mean deviation is the absolute values of the deviation from the mean. (0.1 + 1.1 + 7.1 + 5.9 + 7.9 + 4.9 + 1.9 + 2.1 + 4.1 + 6.1)/10 = 41.2/10 = 4.12

QUESTION NO: 5

The venture capital industry now funds investments such as

A. companies seeking leveraged buyouts.

B. none of these answers.

C. hedged funds.

D. companies in the mature stage of their life cycle.

E. all of these answers are correct.

F. companies emerging from bankruptcy.

ANSWER: A D F

Explanation:

Recently, the venture capital industry has begun to cover a broader range of investments including funding for:

1. Established businesses that are in the process of expanding, just prior to the IPO stage.

2. Companies in "turnaround" situations.

3. Management seeking LBOs, also referred to MBOs of their companies.

QUESTION NO: 6

Keynesians believe that a discretionary fiscal policy:

A. is destabilizing due to difficulty in timing and should not be used actively.

B. is ineffective since people rationally anticipate its future effects.

C. none of these answers.

D. is not as effective as the monetary policy in controlling unemployment.

ANSWER: C

Explanation:

Keynesians believe that aggregate demand has a major influence. They maintain that suppliers will produce at a level consistent with anticipated aggregate demand. Hence, to increase economic production when the economy is operating below capacity, Keynesians advocate spurring the demand in the market through the use of an expansionary fiscal policy.

QUESTION NO: 7

A portfolio manager with Smith, Kleen, & Beetchnutty is trying to determine the earnings per share (EPS) for a software index, and has gathered the following information:

Sales per share: $340

Next year's operating profit margin: 50%

Next year's depreciation per share: $50

Next year's interest expense: $68

Next year's common stock dividend: $14 Next year's corporate tax rate: 35%

Using this information, what is the EPS figure for this stock market series?

A. $72.15

B. The answer cannot be calculated from the information provided.

C. $24.70

D. $33.80

E. $83.80

F. None of these answers is correct.

ANSWER: D

Explanation:

The estimation of EPS for a stock market series involves five steps. Specifically, to determine an estimate of EPS for a stock market series, it is necessary to:

Estimate the sales per share

Estimate next year's operating profit (EBIDT), or operating profit margin Estimate next year's depreciation per share

Estimate next year's interest expense per share

Estimate next year's corporate tax rate

Once estimates for these components have been determined, they are put into the following equation:

EPS for a stock market series = {[(Sales per share * operating profit margin) - depreciation per share - interest expense per share] * (1 - corporate tax rate).

Imputing the given information into this equation will yield the following:

EPS for a stock market series = {[($340 * 0.50) - $50 - $68] * (1 - 0.35)} = $33.80

If you chose $83.80, remember that the depreciation figure is not added back to the EPS calculation. What we are looking at is an operating earnings after tax figure, not a cash-based figure.

If you chose $24.70, remember that common stock dividends are not incorporated into the EPS figure, only interest payments on debt and preferred securities.

QUESTION NO: 8

The inevitable consequence of price controls is:

A. increased currency convertibility.

B. none of these answers.

C. the development of black markets.

D. trade war.

ANSWER: C

Explanation:

Since price controls, of which exchange rate control are a type, lead to shortages, black markets develop.

QUESTION NO: 9

Consider the following preferred stock issued by Bluebook Pharmaceuticals:

Price per share: $12.65

Annual dividend per share: $1.30

Required rate of return: 9% per year

Is the preferred stock realistically overvalued, undervalued, or correctly valued? Further, should this preferred stock be valued as a perpetuity or a finite series of cash flows?

A. Undervalued; perpetuity

B. Undervalued; finite series of cash flows

C. Correctly valued; finite series of cash flows

D. Correctly valued; perpetuity

E. Overvalued; finite series of cash flows

F. Overvalued; perpetuity

ANSWER: A

Explanation:

The preferred stock profiled in this example is trading above its theoretical value, which is found to be $14.44.

To determine the value of a preferred stock, use the following equation: {P0 = [d1 / k]}

Where:P0 = the price of the preferred stock at time 0, d1 = the annual dividend at t = 1, and k = the required rate of return.

In this example, the dividend is provided as an annual figure, so all of the necessary information has been given. The calculation of the value of this preferred stock is as follows:

{P0 = [$1.30 / 0.09] = $14.44

Preferred stock is commonly valued as a perpetuity because there is no finite conclusion to the projected series of cash flows for a preferred stock. Unlike a bond, whose cash flows are characterized by a finite lifespan (i.e. the cash flows of a bond cease at maturity), the cash flows (dividends) produced by a preferred stock could theoretically last forever.

QUESTION NO: 10

A preferred stock has a $500 par value and a dividend payout of $45 per year. Your required rate of return is 15%. What is the value of the preferred stock?

A. not enough information to calculate it

B. $400

C. $350

D. $300

ANSWER: D

Explanation:

The value of a preferred stock is the stated annual dividend divided by the required rate of return on preferred stock.

In this case, V = $45/.15 = $300

QUESTION NO: 11

Venture capital has proved to impact economic development in the following ways:

A. all of these are correct

B. job development

C. competitive adaptation

D. formation of capital

E. none of these is correct

F. technological innovation

ANSWER: B C D F

Explanation:

Several researchers have concluded that venture capital investments are critical to the economy in terms of capital formation, local development, economic expansion, technological growth and innovation, employment growth, and competitive adaptation in global markets.

Besides adding jobs, venture capital investments have resulted in development of medical diagnostic and treatment equipment, and scientific improvements.

Venture capital investments have developed entrepreneurs and have contributed to innovation and competitiveness.

QUESTION NO: 12

Contrarians consider an increase in credit balances in brokerage accounts as:

A. a hold signal.

B. a bearish signal.

C. none of these answers.

D. a bullish signal.

ANSWER: B

Explanation:

Credit balances with brokerages result when investors sell their stock holdings and leave the cash balances with their brokers, expecting to reinvest them shortly. Technical analysts view these balances as pools of potential purchasing power overhanging the market and hence believe that the market is bullish. Contrarians, on the other hand, believe that most market participants make wrong investment decisions as the market approaches the peak or trough in a cycle. Hence, contrarians consider a large increase in credit balances as a bearish signal.