CFA Institute CFA-Level-I Practice Questions

Shared by Hinton on 27-10-2026

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Question 1

Question Type: MultipleChoice

Using the following assumptions, calculate the rate of return on a margin transaction and the stock price at which the investor who purchases the stock will receive a margin call.

What of the following choices is closest to the correct answer? The margin transaction return is:

Options:

A- 83.33%, and the investor will receive a margin call at a stock price of $15.43.
B- 33.33%, and the investor will receive a margin call at a stock price of $15.43.
C- 111.11%, and the investor will receive a margin call at a stock price of $21.00.
D- 111.11%, and the investor will receive a margin call at a stock price of $15.43.

Answer:

A

Question 2

Question Type: MultipleChoice

Projects A and B are mutually exclusive and will be repeated. The company's cost of capital is 12.5 percent.

tProj. A-Cash FlowsProj. B-Cash Flows

0- 10,000- 10,000

1+ 40,000+ 30,000

2+ 50,000+ 30,000

3+ 30,000+ 30,000

4+ 20,000+ 30,000

5+ 30,000

What is the equivalent annual annuity (EAA) of the best project?

Options:

A- $24,227
B- $27,192
C- $32,811
D- $23,243
E- $35,000

Answer:

C

Question 3

Question Type: MultipleChoice

How much must you deposit today if you wish to have $30,000 in 20 years, assuming that interest accumulates at 8% per year, compounded annually?

Options:

A- $6,436.45
B- $7,046.51
C- $3,000.00
D- $5,045.65
E- $6,604.73

Answer:

A

Question 4

Question Type: MultipleChoice

The net cash flow attributable to an investment project is known as which of the following terms?

Options:

A- Sunk Cost
B- Opportunity Cost

C- Incremental Cash Flow
D- Cannibalization
E- Externality

Answer:

C

Question 5

Question Type: MultipleChoice

Various countries' securities laws permit a manager to pay up for goods and services without violating the manager's fiduciary duty, so long as the requirements of the law are followed. Each of the following are typical requirements, except:

Options:

B- the manager may seek satisfactory price and execution.
C- the goods or services purchased must be for 'research service.'
D- none of these answers.
E- the commission paid must be reasonable in relation to the research and execution services received.

Answer:

B

Question 6

Question Type: MultipleChoice

Given the following data, what will an arbitrageur earn after one year on a covered interest arbitrage if he begins with $1 million?

In New York todayInterest rate = 7%

In London todayspot rate = $1.75/L

Interest rate = 12%

In London one yearforward rate = $1.68/L

Options:

A- $7,560
B- $5,200
C- $4,300
D- $3,580
E- $6,800

Answer:

B

Question 7

Question Type: MultipleChoice

A firm has to pay 1.5% fee to underwriters when it issues new equity. The firm has a dividend payout ratio of 37% and a return on equity of 13.9%. The firm has just announced earnings of $3.27 per share. If the stock's cost of external equity is 14.9%, how much capital would the firm raise by issuing 6 million shares?

Options:

A- $111.12 million
B- none of these answers
C- $98.33 million
D- $130.55 million

Answer:

D

Question 8

Question Type: MultipleChoice

Oils Galore is a large firm that prefers to use the Successful Efforts method of accounting. A similar firm, Rival Oil & Gas, Inc., uses the Full Cost method. An inspection of their financial statements would reveal that:

I . Oils Galore has a higher debt-to-asset ratio.

II . Rival O&G has higher equity.

III . Oils Galore is burdened with higher taxes.

IV . Rival O&G shows higher cash flows.

Options:

A- I & III
B- II & IV
C- III & IV
D- I & II

Answer:

D

Question 9

Question Type: MultipleChoice

Monthly commissions of first-year insurance brokers are $1,270, $1,310, $1,680, $1,380, $1,410, $1,570, $1,180 and $1,420. These figures are referred to as:

Options:

A- None of these answers
B- Raw data
C- Frequency distribution
D- Ogive
E- Histogram

Answer:

B

Question 10

Question Type: MultipleChoice

Which of the following is not an advantage of technical analysis?

That answer is correct!

Options:

A- Requires the use of audited financial statements
B- Technical analysis is not time-consuming
C- Can catch market trends and reversals close to their occurrence
D- Does not rely heavily on financial figures and accounting statements
E- Does not assume that securities prices move in observable trends

Answer:

A

Question 11

Question Type: MultipleChoice

The WACC of a firm equals 10.67%. The pre-tax cost of debt equals 8.4%, the firm pays 38% taxes and the firm's equity holders expect a rate of return of 17%. The firm's debt-to-equity ratio equals _____.

Options:

A- 1.41
B- 0.72
C- 1.16
D- 0.86

Answer:

C

Question 12

Question Type: MultipleChoice

Consider the following information about a common stock:

Price per share: $115.88

Next dividend per share: $2.80

Required return: 15.25% per year

Expected growth rate: 12.75% per year

What is the value of this common stock?

Options:

A- $129
B- $112
C- $101
D- None of these answers is correct.
E- $103
F- The answer cannot be determined from the information provided.

Answer:

B

Question 13

Question Type: MultipleChoice

Walter Jennings, a quantitative analyst with Smith, Kleen & Beetchnutty Brokerage, has just been informed of an important error in one of his recent statistical endeavors. Specifically, in one hypothesis test, Mr. Jennings failed to reject a null hypothesis that later was proven to be false. Which of the following best describes this type of error in hypothesis testing? Further, if the confidence level of the test were increased, would the probability of this error increase, decrease, or is this probability difficult to determine?

Options:

A- Type II error; difficult to determine
B- Type I error; difficult to determine
C- Type I error; decrease
D- Type II error; decrease
E- Type I error; increase
F- Type II error; increase

Answer:

A

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