Question #1 of 180

Question ID: 1612066

Courtney Johnson, CFA, manages equity accounts and recommends Reliable Management to clients who ask about fixed-income investments. Reliable, in turn, provides Johnson with equity research. Johnson has not informed her equity clients, who are always very happy with Reliable's performance, of the arrangement with Reliable. Johnson has violated:

A) none of the Standards.

B) the Standard concerning client referrals. ✓

C) the Standard concerning soft dollar arrangements.

Explanation

Standard VI(C) Referral Fees requires members and candidates to disclose to clients and prospects any consideration or benefit received by the member for the recommendation of any service. "Soft dollars" refers to benefits received from client brokerage.

(Module 90.1, LOS 90.b, 90.c, Module 91.8, LOS 91.a, 91.b, 91.c, Module 93.1, LOS 93.a, 93.b)

Question #2 of 180

Question ID: 1611980

Normal Corp. has a current ratio above 1 and a quick ratio less than 1. Which of the following actions will increase the current ratio and decrease the quick ratio? Normal Corp.:

A) buys fixed assets on credit.

B) uses cash to purchase inventory.

C) pays off accounts payable from cash. ✓

Explanation

Paying off accounts payable from cash lowers current assets and current liabilities by the same amount. Because the current ratio started off above 1, the current ratio will increase. Because the quick ratio started off less than 1, it will decrease further. The other choices are incorrect. Buying fixed assets on credit decreases both ratios because the denominator increases, with no change to the numerator. Using cash to purchase inventory would result in no change in the current ratio but would decrease the quick ratio by decreasing the numerator.

(Module 39.2, LOS 39.b)

Question #3 of 180

Question ID: 1611925

An analyst has data on institutional salespeople at an investment banking firm showing how they ranked in total monthly commissions, from first to eighth. To determine whether a high rank in one month indicates a high probability of achieving a high rank in subsequent months, the analyst should use a:

A) *t*-test.

B) nonparametric test.

C) mean differences test.

Explanation

A Spearman rank correlation test is appropriate in this scenario. This is a nonparametric test.

(Module 8.2, LOS 8.c)

Question #4 of 180

Question ID: 1612069

Justin Matthews, CFA, is chief financial officer of a bank and serves on the bank's investment committee. The majority of the committee has voted to invest in medium-term euro debt. Matthews feels very strongly that this is a poor strategy and that trends in both the exchange rate and in euro interest rates over the next year will result in large losses on the position. According to the Code and Standards, Matthews should *most appropriately*:

A) document his difference of opinion with the committee.

B) express his concerns to the bank's chief executive officer directly.

C) dissociate from the recommendation by asking that his name not be included.

Explanation

Standard V(A) Diligence and Reasonable Basis states that if a consensus opinion has a reasonable basis, a member or candidate who disagrees with it does not have to dissociate from it but should document the difference of opinion.

(Module 90.1, LOS 90.b, 90.c, Module 91.7, LOS 91.a, 91.b, 91.c, Module 93.1, LOS 93.a, 93.b)

Question #5 of 180

Question ID: 1611975

For an operating lease, the value of the right-to-use asset and the lease liability on the lessee's balance sheet will be equal in each reporting period over the term of the lease under:

A) IFRS, but not U.S. GAAP.

B) U.S. GAAP, but not IFRS.

C) both IFRS and U.S. GAAP.

Explanation

For operating leases under U.S. GAAP, the principal reduction in the lease liability and the amortization of the right-to-use asset are equal each period so that the values of the lease liability and right-to-use asset will be equal over the term of the lease. This is not the case under IFRS.

(Module 36.1, LOS 36.a)

Question #6 of 180

Question ID: 1612071

Lisa Crocker, CFA, manages several pension accounts and directs most of her trades to Zeta Brokers, which provides excellent trade execution as well as equities research. Regional Brokers, which also has excellent trading services, has offered to execute trades for Crocker at half the commission rate she pays Zeta, but Regional does not supply equities research. If Crocker declines to switch her business from Zeta to Regional, has she violated any CFA Institute Standards of Professional Conduct?

A) Yes, because she has not obtained explicit permission from her clients to use Zeta.

B) No, if the higher commissions are justified by the value of the research services she receives.

C) Yes, because the Standard concerning loyalty, prudence, and care states that she must minimize trading costs for her accounts.

Explanation

According to Standard III(A) Loyalty, Prudence, and Care, Crocker may pay higher fees without violating her fiduciary duty as long as the research benefits the firm's clients and the commission paid is reasonable in relation to the research and execution of services received.

(Module 90.1, LOS 90.b, 90.c, Module 91.4, LOS 91.a, 91.b, 91.c, Module 93.1, LOS 93.a, 93.b)

Question #7 of 180

Question ID: 1614576

Stakeholder theory is *most accurately* described as the belief that corporate governance should focus on managing:

A) the activities of a company in the best interests of its owners.

B) employee activities in compliance with ethical standards and applicable laws.

C) conflicts among different groups that have an interest in a company's activities.

Explanation

According to stakeholder theory, the focus of corporate governance is managing conflicts among the interests of different groups that have an interest in a company's activities. Shareholder theory holds that the focus of corporate governance should be to manage the activities of a company in the best interests of its owners. (Module 23.1, LOS 23.b)

Question #8 of 180

Question ID: 1611924

Which of the following statements about the central limit theorem is *least accurate*?

A) The central limit theorem has limited usefulness for skewed distributions.

B) The mean of the population and the mean of all possible sample means are equal.

C) When the sample size is large, the sampling distribution of the sample means is approximately normal.

Explanation

The central limit theorem holds for any distribution as long as the sample size is large (i.e., $n > 30$).

(Module 7.1, LOS 7.b)

Question #9 of 180

Question ID: 1612074

Isabelle Burns, CFA, is an investment advisor and holds shares of Torex in her personal account because she thinks it is undervalued. According to the CFA Institute Standards of Professional Conduct, Burns may:

A) recommend Torex to clients but must disclose her investment in Torex.

B) not recommend Torex to clients while she has a personal investment in the stock.

C) recommend Torex to clients for whom it is suitable without disclosing her investment in Torex.

Explanation

To comply with Standard VI(A) Disclosure of Conflicts, members and candidates must make full disclosure of all matters that could impair their independence. Sell-side members and candidates should disclose to their clients any ownership in a security that they are recommending.

(Module 90.1, LOS 90.b, 90.c, Module 91.8, LOS 91.a, 91.b, 91.c, Module 93.1, LOS 93.a, 93.b)

Question #10 of 180

Question ID: 1611953

Erbdin Company determines that replacing some of its manufacturing equipment with an updated model would decrease its variable cost of production by 15%. Doing so would be *best* characterized as:

A) an expansion project.

B) a going concern project. ✓

C) a business growth investment.

Explanation

Going concern projects include those needed to maintain the business and those undertaken to reduce costs.

(Module 26.1, LOS 26.a)

Question #11 of 180

Question ID: 1611938

Which of the following statements on the economic implications of trade restrictions is *most accurate*?

A) Quota rents are the amounts received by the domestic government when it charges for import licenses.

B) In the importing country, import quotas, tariffs, and voluntary export restraints all decrease producer surplus.

C) In the case of a quota, if the domestic government collects the full value of the import licenses, the result is the same as that of a tariff. ✓

Explanation