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QUESTION 1

With respect to depreciation methods, which of the following is true?

I. Accelerated depreciation methods lead to higher depreciation expense over time.

II. The Straight-line method causes higher taxes in later years.

III.

Accelerated methods are preferred for tax reasons.

A.

III only

B.

II and III

C.

I and III

D.

II only

Correct Answer: A

Accelerated methods cause depreciation expense to decrease over time. In later years, the straight-line method leads to higher depreciation compared to accelerated methods and hence, leads to lower taxes.

QUESTION 2

The majority of empirical evidence indicates that

A. the gross returns on mutual funds tend to as good as or slightly better than those on buy-and-hold strategies, while the net returns on mutual funds tend to be slightly lower than those on buy-and-hold strategies.

B. the gross returns on mutual funds tend to as good as or slightly worse than those on buy-and-hold strategies, while the net returns on mutual funds tend to be significantly lower than those on buy-andhold strategies.

C. the gross returns on mutual funds tend to be significantly better than those on buy-and-hold strategies, while the net returns on mutual funds tend to be about equal to those on buy-and-hold strategies.

D. the gross and net returns on mutual funds tend to be significantly higher than those on buy-and-hold strategies.

E. the gross and net returns on mutual funds tend to be significantly lower than those on buy-and-hold strategies.

Correct Answer: E

Net returns (which take account for research and trading costs) have been about 1% lower on mutual funds than on buy-

and-hold strategies. Because of these studies, index funds have grown in popularity. Because index funds only imitate a broad market index, they have no research costs and minimal trading expenses.

QUESTION 3

If the 50-day moving average for the stock price crosses the 150-day moving average from below on heavy volume, technical analysts would consider this to be

- A. inconsequential.
- B. a sign of a flat trend.
- C. a bullish sign.
- D. a bearish sign.

Correct Answer: C

Technical analysts use moving averages of past stock prices as indicators of long-term trends. When the 50-day moving average crosses the 150-day moving average from below on heavy volume, this is viewed as a bullish sign possibly signaling a reversal in the declining price trend. In order for such a crossing to occur, the stock price must be going through a recent uptrend, which is pulling up the 50-day moving average faster than the 150-day moving average.

QUESTION 4

On June 30, 1996, Union Inc. purchased goodwill for \$125,000 when it acquired the net assets of Apex Corp. During 1996, Union incurred additional costs of developing goodwill by training Apex employees (\$50,000) and hiring additional Apex employees (\$25,000). Before amortization of goodwill, Union's December 31, 1996 balance sheet should report goodwill of _____.

- A. \$150,000
- B. \$200,000
- C. \$75,000
- D. \$175,000
- E. \$125,000

Correct Answer: E

Goodwill is recorded only when it is purchased. In this case, only \$125,000 was purchased goodwill. The costs incurred to maintain, develop, or restore goodwill must be expensed. In this case, \$75,000 will be expensed.

QUESTION 5

Which of the following would be an example of non-activist monetary policy?

- A. The Central Bank attempts to counter-act negative developments in the economy.

- B. Inflation is the only target for the Central Bank.
- C. The Central Bank tries to keep the money supply constant.
- D. The government keeps spending constant and allows tax revenues to rise or fall to compensate for changes in aggregate income.
- E. The Central Bank increases the money supply by 5% every year.

Correct Answer: E

The classic non-activist monetary policy example is to increase the money supply by a particular level every year. Activist or discretionary monetary policy involves changing the supply of money to counteract negative developments in the economy.

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