

EASY ROUND

1. If the national government wants to pursue an expansionary fiscal policy, it should:
 - a. decrease income taxes
 - b. decrease government spending
 - c. decrease overnight borrowing rate
 - d. decrease reserve requirement

2. If the BSP wants to implement an expansionary monetary policy, it can:
 - a. purchase government securities on the open market
 - b. lower the discount rate
 - c. reduce reserve requirements
 - d. all of the above

3. A U.S. based emerging markets portfolio manager decides to invest in peso-denominated government securities, this specific action creates:
 - a. a supply of both dollars and pesos
 - b. a demand for both dollars and pesos
 - c. a demand for dollars and supply of pesos
 - d. a demand for pesos and supply of dollars

4. A stock call option is “in-the-money” when:
 - a. the stock price is above the exercise price
 - b. the stock price is below the exercise price
 - c. the stock price and the exercise price are equal
 - d. the exercise prices is above the stock price

5. The body tasked with enacting monetary policy in the Philippines is the:
 - a. Department of Finance
 - b. Bureau of Treasury
 - c. Bangko Sentral ng Pilipinas
 - d. Philippine Stock Exchange

6. Which of the following is most likely to be considered an indicator of high quality earnings?
- significant interest capitalization
 - several non-recurring gains
 - no provisions for lawsuits and other contingencies
 - short useful lives in amortizing intangible assets
7. A balanced fund is composed:
- purely of equities
 - purely of bonds
 - of a combination of equities and bonds
 - of a combination of money market instruments and bonds
8. Which of the following two sources of bond risk have offsetting effects?
- default risk and interest rate risk
 - reinvestment risk and default risk
 - interest rate risk and reinvestment risk
 - none of the above have offsetting effects
9. Roxxon Company's current ratio is 2:1. Which of the following transactions would most likely increase its current ratio?
- collecting an accounts receivable
 - purchasing inventory on account
 - declaration of dividends
 - issuance of long-term bonds
10. A 10 percent increase in income caused a group of consumers to increase their purchases of comic books from 100 to 110. What would be the group's income elasticity of demand for comic books?
- 0.10
 - 0.83
 - 1.00
 - 1.10
11. FF Corp. produces hand-held lasers and has the following production information:
- 150,000 units produced
 - Retail price is P 10
 - Variable cost is P 6
 - Fixed costs are P 100,000
- The break-even quantity is:
- 10,000 units
 - 15,000 units
 - 20,000 units
 - 25,000 units

12. Bond price volatility normally is:
 - a. lower for higher coupons
 - b. lower for longer duration
 - c. greater for shorter maturities
 - d. lower for zero coupon bonds

13. A firm has net cash sales of P 3,000, cash operating expenses (including taxes) of P 1,400, and depreciation of P 500. Cash flows from operations equal:
 - a. P 1,100
 - b. P 1,600
 - c. P 2,100
 - d. P 3,000

14. The Philippine Stock Exchange Index is a:
 - a. Price-weighted index
 - b. Unweighted index
 - c. Free-float market value weighted index
 - d. None of the Above

15. The auction method used by the Bureau of Treasury when auctioning new Fixed Rate Treasury Notes (FXTNs) is called:
 - a. an English Auction
 - b. a Dutch Auction
 - c. a British Auction
 - d. none of the above

MODERATE ROUND

1. Henry McCoy, CFA has been hired by Worthington Industries to manage its pension fund. McCoy's fiduciary duty is owed to:
 - a. the shareholders of Worthington
 - b. the management of Worthington
 - c. the participant and beneficiaries of Worthington's pension plan
 - d. Both A & B Only

2. The mosaic theory holds that an analyst:
 - a. Should distinguish between facts and opinions in research reports.
 - b. Should exercise due care in recommendations.
 - c. Can use material public information and/or nonmaterial nonpublic information in the analyst's analysis.
 - d. Can use material nonpublic information and nonmaterial public information in the analyst's analysis.

3. A major bank quotes the spot exchange rates for the euro per British pound at €1.46, the US dollar per euro at \$1.26, and the Philippine peso per British pound at P98.05. The Philippine peso per US dollar cross rate is closest to:
 - a. P51.06.
 - b. P52.80.
 - c. P53.30.
 - d. P54.60.

4. Cash Management Group has six corporate clients with revenues in the following percentages: 40%, 25%, 15%, 10%, 8%, and 2%. Compute for the five-client Herfindahl index for the group.
 - a. 98%
 - b. 26.14%,
 - c. 10.18%,
 - d. none of the above

5. The term "material" in the phrase "material nonpublic information" refers to information that is likely to affect significantly the market price of the issuing company's security or that:
 - a. is derived by the financial analyst from direct communication with an issuing company's management
 - b. is likely to preclude the financial analyst or the analyst's firm from rendering unbiased or objective advice
 - c. is acquired by the financial analyst from a special or confidential relationship with the issuing company
 - d. is likely to be considered important by reasonable investors in determining whether to trade a particular security.

6. Scott Lang invested in a hedge fund with a 2% annual management fee and a 25% incentive fee for returns above the risk free rate, which is currently 6%. There is no “high water mark” provision in the fees schedule. If the hedge fund’s gross return for the year is 5%, Lang’s net return is closest to:
- 2%
 - 3%
 - 4%
 - 5%

7. Given below are select financial ratios of Seoil Corp.:

ROE	-	12%
Profit margin	-	6%
Asset turnover	-	1.5

What is Seoil’s proportion of debt as a percentage of its total capital?

- 25%
 - 33%
 - 50%
 - 67%
8. Bonifacio Properties purchases a commercial building for PHP100,000,000 with 35% down and the rest financed through a 20-year mortgage. The investor sells the property after 2 years and generates PHP41,000,000 in after tax profits after pay-off of the remaining mortgage balance. Assuming the investor requires a 10% return, what is the NPV of the investment?
- Year 1 Net Operating Income = PHP16,000,000
 - Year 2 Net Operating Income = PHP20,000,000
 - Annual Depreciation = PHP5,000,000 per year
 - Annual Interest Expense = PHP7,000,000 per year
 - Marginal Tax Rate = 30%
- PHP9.24M
 - PHP9.13M
 - PHP7.17M
 - PHP6.06M
9. An investor buys a stock at \$100 and also buys a put option on the stock with a put price of \$6 and having an exercise price of \$90. At expiration of the put option, the stock price has fallen to \$50. The loss for the investor’s position would be:
- \$6.
 - \$16.
 - \$44.
 - \$46.

10. John Allerdyce is a financial analyst with BEM Brokerage Company. He is preparing a buy recommendation for XME Corporation. Which of the following situation/s would represent a conflict of interest, and would require disclosure?
- I. BEM holds a substantial stock position in XME Corporation
 - II. John Allerdyce holds a substantial stock position in XME Corporation
- a. Situation I only
 - b. Situation II only
 - c. Both statements represent a conflict of interest
 - d. Neither statement represent a conflict of interest, but would still require disclosure

DIFFICULT ROUND

1. Carol Danvers owns a seasonal property in Anvaya Cove. The property provides a NOI of \$35,000 and Carol makes mortgage payments of \$26,625 per year, \$24,375 of which is interest. Annual depreciation on the property is \$8,750, and Carol's marginal tax rate is 35%. The after-tax cash flow produced by this property is closest to:
 - a. \$ 9,975
 - b. \$ 7,725
 - c. \$ 6,250
 - d. (\$ 1,025)

2. An investor owns a 100-unit apartment complex in a medium-sized city in a province near Metro Manila. The city, whose population is far younger than the national average, has recently enacted a tough "low growth" ordinance in order to limit new construction. This is seen as a response to recent rapid growth, partly fueled by migration from nearby more expensive cities. Prospects for this investment are:
 - a. favorable because of demographics and real estate supply
 - b. favorable because of psychographics and real estate supply
 - c. unfavorable because of real estate demand
 - d. unfavorable because of location

3. A small emerging market country wants to establish its first stock exchange. The commissioner of the exchange however is trying to decide whether to create a price-weighted, market-weighted, or unweighted index for the exchange. International expert-wannabes offer the following opinions. Which of the following expert/s is/are correct?

Mark: "A free-floating market-weighted index is dominated by large privately held companies."

Tonyboy: "The problem with the price-weighted index is that the divisor is never adjusted for changes in the index, or when stocks split."

Al: "A price-weighted index is superior to an unweighted index because after a stock split, members of the price-weighted index retain their weightings."

Lester: "An unweighted index is indifferent to larger or smaller companies, and therefore gives equal influence to the stocks of blue chip and immature companies."

Anton: "A free-floating market-weighted index is dominated by very small companies."

 - a. Only Mark is correct
 - b. Only Lester is correct
 - c. Only Mark and Tonyboy are correct
 - d. Only Lester and Al are correct

4. Kitty Pryde, CFA, would like to implement a protective put strategy. She gathers the following information:
- The currency is selling for \$ 1.35
 - The expected currency price at expiration is \$ 1.25
 - A put option is selling for P 0.05 with an exercise price of \$ 1.38

Which statement is most accurate?

- a. The breakeven price of the currency at expiration is \$ 1.43
 - b. If the price of the currency at expiration is \$ 1.25, the profit would be \$ 0.03
 - c. If the price of the currency at expiration is \$ 1.25, the maximum loss would be \$ 0.02
 - d. If the price of the currency at expiration is \$ 1.25, the value at expiration would be \$ 1.33
5. Richard Rider expects the stock market to trade within a narrow range for the next 3 months. What option strategy should he execute following his market view?
- a. Protective Put
 - b. Long Call + Long Put
 - c. Short Call + Short Put
 - d. Short Call + Long Put
6. The investment committee of the Brotherhood of Mutants Hedge Fund meets to decide on what strategy to take in order to generate abnormal returns for its clients. The committee members debate the Efficient Market Hypothesis (EMH). Which of the following comments is most accurate?
- a. Dominic Petros: "We can significantly outperform the market on a risk-adjusted basis by merely choosing a portfolio of high beta securities."
 - b. Raven Darkholme: "I believe in the semi-strong EMH, and therefore we must gain access to historical pricing information in order to post abnormal returns."
 - c. Martin Fletcher: "I am confident that the Strong-Form EMH holds, and therefore we should aim to gain access to private information to generate abnormal returns."
 - d. Irene Adler: "I am a proponent of the Weak-Form EMH and therefore we must focus on stocks of small companies, where statistics have shown there is less efficiency and greater opportunity for abnormal returns."

7. When a dealer strips a Treasury bond and sells the strips in the bond market, what is the coupon on each stripped (principal only) bond?
- 0%
 - Libor
 - US Fed funds rate
 - The coupon on the original Treasury bond
8. A stock has the following characteristics:
- | | | |
|---------------------------------------|---|------|
| Beta coefficient | = | 1.10 |
| Risk-free rate | = | 6% |
| Required rate of return on the market | = | 13% |
| Dividend retention rate | = | 40% |
| Expected dividend growth rate | = | 10% |
- Its normalized price-to-earnings ratio is closest to:
- 11
 - 13
 - 15
 - 16
9. A Shi'ar Corp. bond has an effective duration of 5 and convexity of negative 30. The percentage price change due to a 150 basis point decline in rates is closest to:
- 5.5%
 - 6.8%
 - + 5.5%
 - + 6.8%
10. Kree Corp. expects to receive \$100,000,000 in 60 days. Kree expects short term rates to rise during the next two months. Kree decides to use a FRA that expires in 60 days and is based on the 60-day LIBOR. It's quoted at 4.75% and at expiration LIBOR is 5%. Based on notional principal of \$100 million, which of the following statements is the most accurate?
- Kree should go short on the FRA, and the gain will be approximately \$42,982
 - Kree should go long on the FRA, and the gain will be approximately \$42,982
 - Kree should go long on the FRA, and the gain will be approximately \$45,355
 - Kree should go long on the FRA, and the gain will be approximately \$41,355