CHARTERED FINANCIAL ANALYST (CFA) PRACTICE EXAM LEVEL 2 (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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1. **What does the formula P = SUM[(Coupon) / (1 + SPOTRT)^T] + (Principal) / (1 + SPOTRT)^T calculate?**

   A. Yield to Maturity of a Bond

   B. Price of a Bond

   C. Current Yield of a Bond

   D. Future Value of a Bond

2. **How is Net Stable Funding calculated?**

   A. Available Stable Funding / Required Stable Funding

   B. Expected Cash Outflows / Highly Liquid Assets

   C. Cash Flow from Operations / Total Liabilities

   D. Long-term Debt / Total Assets

3. **What formula represents the Cap Rate?**

   A. R0 = Gross Rental Income / Sales Price

   B. R0 = NOI / Sales Price

   C. R0 = Effective Gross Income / Vacancy Rate

   D. R0 = Sales Price / NOI

4. **Which method is used to translate monetary assets for an independent subsidiary?**

   A. Current rate method

   B. Temporal method

   C. ACR method

   D. Historical method

5. **In a multi-stage Dividend Discount Model (DDM), what determines the dividends in the growth phases?**

   A. Constant growth rate over the long term

   B. Proportional change based on retained earnings

   C. Historical dividend payout ratio

   D. Market price adjustments

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6. Which of the following will influence Active Return?

A. Market performance
B. Investment fees
C. Asset allocation return
D. Tax efficiency

7. What does Yield to Call (YTC) assume about a bond?

A. It can never be called back by the issuer
B. It assumes the issuer can call back the bond at the call date
C. It guarantees a return regardless of the market conditions
D. It is only applicable to corporate bonds

8. In hypothesis testing, what is a Type 1 error?

A. A false negative
B. A true positive
C. A false positive
D. A true negative

9. What signifies a Type 2 error in statistical testing?

A. Failure to reject a true null hypothesis
B. Rejecting a false null hypothesis
C. Incorrectly accepting an alternative hypothesis
D. Announcing a significant result when it is not

10. What does EBITDA primarily include in its calculation?

A. Sales - Depreciation - Interest
B. Sales - COGS - SGA
C. Sales - COGS - Depreciation and Amortization
D. Sales - Taxes - Interest

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Answers

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1. B
2. A
3. B
4. C
5. B
6. C
7. B
8. C
9. A
10. C

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Explanations

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1. What does the formula P = SUM[(Coupon) / (1 + SPOTRT)^T] + (Principal) / (1 + SPOTRT)^T calculate?

A. Yield to Maturity of a Bond

B. Price of a Bond

C. Current Yield of a Bond

D. Future Value of a Bond

The formula P = SUM[(Coupon) / (1 + SPOTRT)^T] + (Principal) / (1 + SPOTRT)^T is used to calculate the price of a bond. It represents the present value of future cash flows, which consist of the periodic coupon payments and the principal amount that will be repaid at maturity. In this context, each coupon payment is discounted back to the present value using the relevant spot rates (SPOTRT), and the principal is also discounted using the same methodology. This approach ensures that all cash flows are appropriately valued as of the current point in time, reflecting the time value of money. The sum of these present values gives the total price investors are willing to pay for the bond today. The other choices relate to different concepts in bond valuation and investment analysis. For example, yield to maturity focuses on the bond's annual return if held to maturity, while current yield measures the income (from coupons) relative to the price but does not account for the time value of the principal or future cash flows. Future value, on the other hand, pertains to how much an investment will grow over time, not the current price of an asset.

2. How is Net Stable Funding calculated?

A. Available Stable Funding / Required Stable Funding

B. Expected Cash Outflows / Highly Liquid Assets

C. Cash Flow from Operations / Total Liabilities

D. Long-term Debt / Total Assets

Net Stable Funding is calculated as the ratio of Available Stable Funding (ASF) to Required Stable Funding (RSF). This metric is essential in assessing the stability of a financial institution's funding sources over a one-year horizon, particularly in the context of liquidity management. The Available Stable Funding comprises the portion of a bank's funding that is expected to remain stable over an extended period, while Required Stable Funding represents the amount of funding needed to support its assets over that same timeframe. By using the formula of ASF over RSF, stakeholders can evaluate whether a financial institution has a sufficient amount of stable funding relative to its funding requirements. A ratio greater than one indicates that the institution has more stable funding than needed, which is a sign of good financial health and resilience against potential liquidity shocks. In contrast, a ratio below one may indicate that the institution is heavily reliant on short-term funding sources, which can expose it to liquidity risk. Therefore, the correct choice illustrates the proper calculation method and reinforces the importance of stable funding in maintaining the financial stability of institutions.

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3. What formula represents the Cap Rate?

A. R0 = Gross Rental Income / Sales Price

B. R0 = NOI / Sales Price

C. R0 = Effective Gross Income / Vacancy Rate

D. R0 = Sales Price / NOI

The capitalization rate, commonly known as the cap rate, is a key concept in real estate finance that helps investors assess the potential return on an investment property. The formula for the cap rate is calculated as the Net Operating Income (NOI) divided by the sales price of the property. Net Operating Income represents the income generated from the property after deducting operating expenses, which include property management fees, maintenance costs, property taxes, and insurance. By dividing the NOI by the sales price, investors can determine the percentage return they can expect based on the income generated from the property relative to what they would pay to acquire it. This ratio provides valuable insights into the profitability of a real estate investment. A higher cap rate often indicates a more attractive investment opportunity, suggesting that the property generates more income in relation to its price. Therefore, the formula R0 = NOI / Sales Price accurately captures this relationship and serves as a fundamental tool for evaluating real estate opportunities. In contrast, other formulas listed do not represent the cap rate; for example, gross rental income divided by sales price reflects gross return but doesn't consider operating expenses, while the other formulas involve unrelated income metrics or ratios. Thus, the correct understanding of the cap rate relies specifically on the NOI and sales

4. Which method is used to translate monetary assets for an independent subsidiary?

A. Current rate method

B. Temporal method

C. ACR method

D. Historical method

The correct answer is the ACR method, which stands for the All-Current Rate method. This method is specifically used to translate monetary assets and liabilities into the presentation currency for an independent subsidiary. Monetary assets, such as cash, receivables, and payables, are translated using the current exchange rate as of the balance sheet date. In this context, the ACR method ensures that the values of those monetary assets reflect the most current exchange rates, providing an accurate representation of their value in the reporting currency. The ACR method is appropriate for independent subsidiaries, as they do not require adjustments related to their own functional currency. Other methods are generally employed for different types of assets or under different circumstances. For example, the current rate method is often used for the overall translation of financial statements, while the temporal method is applied for entities that operate in a hyperinflationary environment or when translating non-monetary items. The historical method is applicable mainly to historical cost accounting but does not specifically pertain to the translation of monetary assets.

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5. In a multi-stage Dividend Discount Model (DDM), what determines the dividends in the growth phases?

A. Constant growth rate over the long term

B. Proportional change based on retained earnings

C. Historical dividend payout ratio

D. Market price adjustments

The dividends in the growth phases of a multi-stage Dividend Discount Model (DDM) are primarily determined by proportional change based on retained earnings. In this model, companies typically reinvest a portion of their earnings back into the business, which can lead to increased dividends over time as the company grows. The retained earnings contribute to the overall growth of the company, allowing it to fund future projects, expand operations, or increase its dividend payout. By utilizing retained earnings effectively, companies can generate higher future profits, which can then be distributed to shareholders as dividends. This approach considers the relationship between earnings and dividends, highlighting how reinvested profits can influence dividend growth during different phases of the company's lifecycle. While elements like the historical dividend payout ratio and constant growth rates may provide some context or context in specific scenarios, they do not directly dictate the growth of dividends in the same way that the adjustments based on retained earnings do. Market price adjustments, on the other hand, are more concerned with how investors perceive the stock's value rather than the underlying mechanics of dividend growth.

6. Which of the following will influence Active Return?

A. Market performance

B. Investment fees

C. Asset allocation return

D. Tax efficiency

Active return is defined as the return of a portfolio above the benchmark return. Understanding the factors that influence active return is crucial for performance evaluation in active investment strategies. The active return can be decomposed into various components, and one critical component is the asset allocation return. Asset allocation return relates to the performance attributed to the strategic decisions about how much of the portfolio is allocated to different asset classes, such as stocks, bonds, and cash. These decisions significantly influence active return because they determine the level of exposure to various assets that can outperform the market benchmark. If a manager allocates more to asset classes that are expected to perform well relative to the benchmark, this can lead to a positive active return. Thus, effective asset allocation decisions are foundational to generating excess returns over the benchmark. While market performance can affect both active and passive return, it does not directly influence the active return since it is not a decision made by the portfolio manager. Investment fees, while important for overall returns, are also deducted from the total return rather than affecting active return directly. Tax efficiency relates to how returns are taxed and can impact an investor's net return but does not influence the active return itself, which focuses on the excess return generated by active management decisions. Therefore, asset allocation

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7. What does Yield to Call (YTC) assume about a bond?

A. It can never be called back by the issuer

B. It assumes the issuer can call back the bond at the call date

C. It guarantees a return regardless of the market conditions

D. It is only applicable to corporate bonds

Yield to Call (YTC) measures the return an investor can expect to earn if a callable bond is redeemed by the issuer at its call date, rather than at its maturity. This metric assumes that the issuer will exercise their option to call the bond when it is advantageous for them, typically when interest rates fall and the bond's coupon rate is higher than current market rates. Therefore, the YTC calculation reflects the potential scenario where the bond is called before its maturity, allowing investors to understand the returns they may receive under those circumstances. The assumption inherent in YTC is crucial because it affects bond pricing and investor expectations, especially for those considering purchasing callable bonds. Callable bonds often have higher yields than non-callable bonds to compensate investors for the call risk, reflecting the possibility that if interest rates drop, the bond may be called back early by the issuer. This return expectation significantly informs investment decisions and portfolio management strategies concerning callable bonds.

8. In hypothesis testing, what is a Type 1 error?

A. A false negative

B. A true positive

C. A false positive

D. A true negative

In hypothesis testing, a Type 1 error occurs when the null hypothesis is rejected when it is actually true. This is often referred to as a "false positive," indicating that the test indicates a relationship or effect exists when it does not. It represents a situation where the test mistakenly signals a significant finding, leading to potentially incorrect conclusions about the data. Understanding Type 1 errors is crucial since they can lead to erroneous decisions, especially in fields such as medicine or finance where a false positive can have significant consequences. The significance level (alpha) is directly related to the probability of making a Type 1 error; for example, if the significance level is set to 0.05, there is a 5% chance of making a Type 1 error. This concept differentiates Type 1 errors from other types of errors in hypothesis testing. A false negative, for instance, relates to a Type 2 error, which occurs when the null hypothesis is not rejected when it is false. This illustrates the importance of balancing the risks of Type 1 and Type 2 errors when designing experiments or analyses, as both have their implications depending on the context of the test.

9. What signifies a Type 2 error in statistical testing?

A. Failure to reject a true null hypothesis

B. Rejecting a false null hypothesis

C. Incorrectly accepting an alternative hypothesis

D. Announcing a significant result when it is not

A Type 2 error occurs when the null hypothesis is false but is not rejected. This error signifies a failure to detect an effect or difference when one truly exists. In statistical hypothesis testing, we start with a null hypothesis, which represents a default or status quo assumption. If the null hypothesis is true, the appropriate decision is to accept it. However, if the null hypothesis is indeed false and we fail to reject it, this misstep leads to a Type 2 error. The choices related to Type 2 errors clarify common misunderstandings in hypothesis testing. Accepting the null hypothesis when it is true is not a mistake; it is the correct decision at that point. Conversely, announcing a significant result when it is not refers to a Type 1 error, which misstates the status of the null hypothesis when it is incorrectly rejected. Thus, acknowledging the distinction between these concepts is vital for understanding hypothesis testing effectively.

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10. What does EBITDA primarily include in its calculation?

A. Sales - Depreciation - Interest

B. Sales - COGS - SGA

C. Sales - COGS - Depreciation and Amortization

D. Sales - Taxes - Interest

EBITDA, which stands for Earnings Before Interest, Taxes, Depreciation, and Amortization, is a measure used to evaluate a company's operating performance. It focuses on the earnings generated from core business operations before accounting for the effects of capital structure (interest) and tax obligations. The calculation of EBITDA starts with sales (or revenue) and deducts costs directly associated with production and operating expenses. This includes the Cost of Goods Sold (COGS), which represents the direct costs attributable to the production of the goods sold by the company. Additionally, while calculating EBITDA, depreciation and amortization are added back to operating profit. This is because EBITDA aims to provide a clearer picture of operational efficiency by excluding non-cash expenses like depreciation and amortization that impact net income. The inclusion of sales, COGS, and the addition of depreciation and amortization accurately reflects the core operating earnings of a business, which is the purpose of EBITDA as a performance metric. Thus, selecting this combination in the calculation aligns with the definition and use of EBITDA in financial analysis.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

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We wish you the very best on your exam journey. You've got this!

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