300Hours: CFA Level 2 Mock Exam

This Chartered Financial Analyst (CFA®) Mock Exam has 44 item set questions, courtesy of IFT.

To best simulate the exam day experience, candidates are advised to allocate a total of 2 hours 12 minutes for this session of the exam.

Once completed, please submit your answers at https://3h.rs/CFAL2Mock to get your score, performance benchmark and answer explanations.

Questions 1-6 relate to Ethical and Professional Standards.

Alpine Investment Case Scenario

Selina Sharma, CFA, is a portfolio manager at Alpine Investments with discretionary authority over her clients' portfolios. As per Alpine's policy, she reviews the investment policy statements of her clients annually. Sometimes changes in clients' circumstances or in capital market expectations dictate more frequent reviews. She updates the investors' IPS to reflect changes in circumstances and capital market expectations.

Caleb Jones, a former business colleague of Sharma, is the Chief Investment Officer (CIO) of Chrome Manufacturing Company (CMC) and an Alpine client. Jones has been very helpful to Sharma by providing her with information on attractive stocks in the manufacturing industry. Sharma has capitalized on this information for her clients' portfolios and her personal portfolio. She has more than once purchased stocks of the companies recommended by Jones for her own account prior to placing a purchase order for her clients which has resulted in her personal portfolio showing a better performance than her other portfolios.

At one of their lunch meetings, Jones informs Sharma that he will be leaving CMC and joining a competitor firm, AID, where he will receive a generous package including stock options in the company. "Because of this increased wealth, I feel I can take additional risk and become more aggressive with my asset allocation." Jones then proceeds to discuss the various aspects of the change in his financial situation, risk tolerance, and financial objectives. Sharma agrees to modify his IPS to reflect the change in his circumstances. As he is leaving, Jones asks Sharma about one of her clients. "I believe your firm manages the ABC Pension Fund. Perhaps you can share with me its asset allocations." Sharma responds, "The pension fund is indeed managed by Alpine and it is aggressive in its allocations." She however, refrains from telling him that she is no longer the portfolio manager and the fund is undergoing a change in its investment policy.

A month later, Sharma reads a report by an Alpine analyst on a small biotechnology firm with a promising outlook. Based on the report's extensive analysis and buy recommendation, she feels that it would be a suitable investment for Jones' account under his new IPS, and two other accounts with objectives and constraints similar to Jones. Sharma places a buy order of equal amount for two of her clients including Jones, and doesn't purchase shares for her third client since his account does not have cash available and his existing assets meet his investment objectives, hence selling them will not be prudent. Sharma calls Jones to discuss the stock in more detail. Jones is not satisfied and retorts, "I'm not comfortable with some of your recent stock picks. Maybe it is time that I change my money manager." In order to pacify Jones, Sharma responds, "Our firm has just received notification of our allocation in a hot new issue. I will make sure that you receive a significant allocation since the investment matches with your new investment profile. You will lose out on this lucrative investment by moving your account elsewhere."

Alpine discloses a copy of its firm's policies regarding IPO allocations to all its clients and prospects, according to which Alpine allocates IPO securities to portfolio managers. It is the responsibility of the portfolio managers to allocate the IPO shares according to the suitability of each of their accounts. Alpine also reveals that it offers different levels of service to clients for different fees.

Sharma, after careful consideration, decides that the proposed IPO is suitable for seven of her clients including Jones. But she receives only three-fourth of the shares due to oversubscription. She directs half to Jones' account and divides the remaining half amongst the other six clients, because of their account value being less than half of Jones' account.

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1. Is Alpine's policy of updating the IPS consistent with required and recommended CFA Institute Standards?

   A. Yes.
   B. No, update is only when there is a change in investor constraints.
   C. No, update is only when the performance benchmarks are not met.

2. Does Sharma violate any CFA Institute Standards by trading for her personal account prior to her clients' trades?

   A. Yes, relating to conflicts of interest.
   B. Yes, relating to fair dealing.
   C. No.

3. When discussing the ABC Pension Fund, does Sharma violate any CFA Institute Standards?

   A. Yes, relating to misrepresentation.
   B. No.
   C. Yes, relating to duties to clients.

4. Does Sharma violate any CFA Institute Standards when she places a buy order for shares in the biotechnology firm for two of her clients' accounts?

   A. Yes, relating to fair dealing.
   B. No.

C. Yes, relating to diligence and reasonable basis.

5. Is Alpine's IPO policy with respect to trade allocations of new shares consistent with the CFA Institute Standards?

A. Yes.
B. No, because the different fees disadvantage certain clients.
C. No, because the IPO policy disadvantages certain clients.

6. Does Sharma violate any CFA Institute Standards in her allocation of IPO shares to her clients' accounts?

A. No.
B. Yes, because she does not treat all her clients fairly.
C. Yes, because the IPO is not suitable for Jones.

Questions 7-10 relate to Economics.

Debra Spalding Case Scenario

Debra Spalding, is a portfolio manager for Altvest Wealth Management (AWM), a boutique wealth management firm based in New York, U.S.A. which specializes in developing customized investment solutions for high net worth individuals and institutions. She meets with the firm's economist Nathan Vanya, CFA to discuss his outlook for the economies of Australia and China and talk about certain issues pertaining to foreign exchange relations and international asset pricing. Spalding has no previous exposure in foreign stocks of Australia and China, but is presently considering adding them to her portfolio. During the meeting, Vanya presents the following comparative information of both countries as shown in Exhibit 1.

Exhibit 1: Selected Currency Exchange Rates and Market Rates

Country	Currency	Spot Exchange Rate*	One Year Risk-free Rate	Expected Annual Inflation Rate
U.S.	USD	N/A	1.90%	1.60%
Australia	AUD	1.3019-1.3140	2.50%	1.30%
China	CNY	6.6303-6.6504	4.50%	2.60 %

Number of foreign currency units per one U.S. dollar

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Spalding and Vanya review some basic relations that are useful in understanding the interplay between exchange rates, interest rates, and inflation. Spalding observes, "According to one of the international interest rate parity conditions, the expected change in the spot exchange rate between two countries over the investment horizon should on average equal the interest rate differential between them." Vanya adds, "Exchange rates are also interpreted in terms of inflation differentials, for instance under a Purchasing Power Parity (PPP) framework, countries that have persistent high inflation rates will see their currencies depreciate over time, while countries with relatively low inflation rates will find that their currencies appreciate over time."

7. Given a bid-side quote on the three-month forward contract of AUD1.3028 per U.S. dollar, the three-month forward U.S. dollar is quoted at an annualized:

    A. 0.28% discount.
    B. 0.28% premium.
    C. 0.36% premium.

8. Using Exhibit 1, according to the international Fisher effect, Spalding should most likely increase holdings in:

    A. Australia.
    B. China.
    C. neither countries.

9. If a dealer's bid-side quote for the Australian Dollar/Chinese Yuan is AUD 0.2020, Spalding's profit on a USD 1,000,000 initial investment in the triangular arbitrage opportunity is closest to:

    A. USD 12,278.
    B. USD 21,269.
    C. USD 19,270.

10. The specific parity condition referred to by Spalding is most likely the:

    A. covered interest rate parity.
    B. ex ante PPP.
    C. uncovered interest rate parity.

Questions 11-14 relate to Financial Reporting and Analysis.

Palladium Corporation Case Scenario

Palladium Corporation Limited is a clothing and accessories retailer headquartered in Pennsylvania, U.S.A. Jeremy Dimon, Palladium's CFO, is reviewing the company's remuneration report which describes the executive compensation plan. Palladium prepares its financial statements in accordance with US GAAP and its year ends on December 31.

The current executive compensation and incentive plan has the following four elements:

1. Base Salary
2. Performance Shares
3. Restricted Stock, and
4. Non-Qualified Stock Options.

The purpose of Dimon's review of the compensation plan is to suggest changes to the incentive plan in the next board meeting. The current plan requires the forfeiture of Performance Shares if the Company does not achieve threshold performance goals by the close of the fiscal year. Restricted Stock and Non-Qualified Stock Options are provided if the vesting requirements – a service period of 5 years after the grant date, are met and share price appreciates. The compensation plan comprises of equity awards to ensure that executive compensation closely aligns with performance objectives and executives are held accountable for results.

Dimon recommends the following proposed changes to the incentive plan:

1. To achieve the proposed financial performance metrics in addition to the existing terms before the options can be exercised and restricted stock is issued. The additional metrics are: a target annual growth rate in earnings per share (EPS) and positive return on invested capital (ROIC).
2. To introduce cash-settled stock appreciation rights (SARs) as compensation and retention of executives. With SARs, the compensation will be determined by a target percentage increase in a company's share price.
3. Black-Scholes model (BSM) will continue to be used for the valuation of options, but the assumptions of the model are to be updated every two years. The following are the current and proposed assumptions of BSM:

Exhibit 1

Input Assumptions for the Black-Scholes Model		
	Current	**Proposed**
Risk-free rate	3.5%	2.5%
Volatility	25%	28%
Expected life of options	5 years	5 years
Dividend yield	4.8%	5.2%

Dimon examines the options and stocks granted this year under the incentive plan. Exhibit 2 lists excerpts from the financial statement.

Exhibit 2: Excerpts from Note 42 Palladium Corp.

Stock Options and Restricted Stock Granted for 2016

	Number of Options	**Weighted Average Exercise Price**
Balance on January 2016	4,200,100	$14.15
Options Granted during 2016	990,000	$14.40
Exercised during 2016	-297,000	$14.00
Forfeited during 2016	-148,500	$14.08
Balance on December 2016	4,744,600	$14.22
	Number of Shares	
Restricted Stock Granted during 2016	10,000	–

All stock and option grants in 2016 were awarded on July 1, 2016. The market price of the shares and the fair value of stock options on those dates are shown in Exhibit 3.

Exhibit 3 Share Prices and Option Values 2016

	Share Price	**Option Fair Value**
January 1, 2016	$13.18	$1.71
July 1, 2016	$13.09	$1.80
December 31, 2016	$13.90	$1.85

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Dimon next inspects the Palladium's defined benefit pension plan as the pension costs have increased over the previous year leading to a deficit funding status for 2016. Dimon notes down the following changes to the plan in order to curtail pension costs:

1. Estimated future salary increases for pension benefits to be reduced by 100 basis points from 2016, because of a significant decrease in expected inflation from previous years.
2. A positive expected rate of return on plan assets to be sought after changing the investment mix while staying within the allowable risk tolerance range.

To review the accounting policies used for pension expense calculation, and evaluate the plan's performance, Dimon considers the following information and realizes that though current service costs decreased from $72 million from the previous year, the plan's funding position did not improve. Further Palladium recognizes actuarial gains and losses in Other Comprehensive Income (OCI) and uses the corridor approach to subsequently amortize to P&L.

Exhibit 4 Palladium Corp. Pension Plan Information

Values in $ Millions December 31

	2016
Employer Contributions	90.00
Current service cost	60.00
Past service cost	30.00
Benefit obligation at the beginning of year	3,350.00
Benefit obligation at end of year	3,920.00
Actuarial loss	340.00
Plan assets at beginning of year	3,740.00
Plan assets at end of year	3,694.20
Actual return on plan assets	-2.00%
Expected rate of return on plan assets	7.00%
Discount rate used to estimate plan liabilities	6.00%

11. Regarding Dimon's proposed changes to the incentive plan, which of the following statements is *most accurate*?

    A. By introducing SARs, the downside risk becomes unlimited.

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   B.   The proposed performance metrics can increase the chances of financial information manipulation by management.

   C.   The option pricing model is not required to determine the compensation expense.

12.   Based on Exhibit 1, which change in assumptions will most likely result in an increase in compensation expense?

   A.   The change in the risk-free rate.
   B.   The change in volatility.
   C.   The change in dividend yield.

13.   The portion of the compensation expense related to the stock option component awarded in 2016 is *closest* to:

   A.   USD 317,200.
   B.   USD 487,300.
   C.   USD 178,200.

14.   The poor investment performance most likely caused the periodic pension cost (in $-millions) reported in the 2016 income statement (assuming no amortization of past service costs or actuarial losses) to be:

   A.   unaffected.
   B.   higher by $74.80 million.
   C.   higher by $340 million.

Questions 15-18 relate to Corporate Issuers.

Essential Woodworks Case Scenario

Essential Woodworks ("Essential") and Modern Furniture ("Modern") are negotiating a friendly acquisition of Essential by Modern. Both companies are part of the same supply chain in the furniture industry, where Essential is Modern's main supplier. Mark Rogers works for Essential's investment banking team and is evaluating Modern's current offer: $7 plus 0.50 shares of Modern stock per share of Essential stock. Rogers estimates that the two companies will result in

economies of scale with a net present value of $120 million. He uses the information in Exhibit 1 to calculate the takeover premium.

Exhibit 1

	Essential	**Modern**
Pre-merger stock price	12	16
Number of shares outstanding (millions)	20	60
Pre-merger market value (millions)	240	960

In a meeting, Rogers updates his supervisor on his research and mentions that Essential's management approached Modern regarding the acquisition after one of Modern's competitors attempted a hostile takeover of Essential.

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15. Based on the type of acquisition between Essential and Modern, which of the following stages of the industry life cycle is the furniture industry least likely in?

    A. Growth.
    B. Shakeout.
    C. Decline.

16. Given Exhibit 1 and the information given in the case, the takeover premium if Essential accepts Modern's offer is closest to:

    A. 68.50.
    B. 190.00.
    C. 308.50.

17. If Modern proposed an all-cash offer of $15 per share of Essential stock, compared to the mixed offer, the post-merger value with this cash offer would most likely be:

    A. higher.
    B. the same.
    C. lower.

18. The situation Rogers describes to his supervisor is most likely an example of which of the following post-offer takeover defence mechanisms?

    A. Pac-man defence
    B. White knight defence
    C. White squire defence

Questions 19-22 relate to Quantitative Methods.

Sunil Manan Case Scenario

Sunil Manan, research director at a hedge fund, is reviewing the regression results involving monthly return of UVS Telecom against the monthly return of NASDAQ and the difference between the monthly returns on long-term treasury notes and short-term borrowing rate set by the Federal Reserve (YS). The multiple regression model uses data of previous 203 months. Manan tests for and confirms the presence of conditional heteroskedasticity. He then runs a similar regression but it is corrected for conditional heteroskedasticity by using robust standard errors. Table 4 gives the results:

Table 4: Regression model summary output: UVS Telecom

Variable	Coefficient	*t*-statistic	*p*-value
Constant	-0.0085	-0.0120	0.99
NASDAQ	0.4465	6.150	< 0.01
YC	1.2504	4.530	< 0.01

Manan wants to test the null hypothesis that the coefficient on YC is equal to 1 against the alternative hypothesis that it is not equal to 1. He also wants to determine whether the model has serial correlation. He uses the t-distribution values given below in Table 5.

Table 5

DF	*p* = 0.05	*p* = 0.025
120	1.658	1.980
200	1.653	1.972
Infinity	1.645	1.960

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19. Regarding conditional heteroskedasticity, the most appropriate conclusion is that the variance of the error term is correlated with:

    A. both the dependent and the independent variables.
    B. the dependent variable only.
    C. the independent variable only.

20. If Manan assumes that the monthly yield spread is 1.35% and the monthly value of NASDAQ is -1.05%, the predicted monthly return of UVS Telecom is *closest* to:

    A. 0.37%.
    B. 0.25%.
    C. 0.63%.

21. The value of the test statistic relating to Manan's null hypothesis that the value of the coefficient on YC is equal to 1 is *closest* to:

    A. 0.67.
    B. 0.91.
    C. 4.53.

22. If the standard error of the coefficient is 0.070 and the degrees of freedom is 200, the 95% confidence interval for the coefficient on the NASDAQ is *closest* to:

    A. 0.31 to 0.58.
    B. -0.20 to 0.07.
    C. 0.04 to 0.31.

Questions 23-26 relate to Alternative Investments.

Delver Investment Management Case Scenario

Delver Investment Management, Inc., is a private equity firm that focuses on buyouts of publicly traded companies and structures itself as a general partner in these deals. Carrie Roberts, a senior analyst, has been asked by the chief investment officer to assist the marketing department in

developing marketing material and leaflets for soliciting institutional investments. Roberts discusses the basic attributes of buyout investments with the marketing manager which would be included in the promotional material:

Attribute 1: The target firms have steady and predictable cash flows.

Attribute 2: The target firms have significant asset base and established products.

Attribute 3: The cash burn rate could be significant to ensure the viability of the restructured company.

It is decided that the leaflet should also list how Delver aligns its interests with those of the managers of the companies it controls.

Further, Roberts suggests that an example of a typical acquisition should be given to serve as an illustration. The example involves Delver's purchase of Skiffy, Inc. for $400 million. After the acquisition, Skiffy's new capital structure consists of USD200 million in debt, USD180 million in preference shares, and USD20 million in common equity. Delver sells Skiffy after five years to a strategic investor for USD710 million.

23. Which of the attributes of buyout investments is *least likely* correct?

    A. Attribute 1.
    B. Attribute 2.
    C. Attribute 3.

24. Which of these clauses is most likely to be added in the leaflet that shows alignment of Delver's interests with the managers of the portfolio companies?

    A. Earn-outs.
    B. Tag-along, drag-along rights.
    C. Reserved matters.

25. When Skiffy, Inc. is sold the part of its capital structure that will *most likely* have decreased in size is?

    A. Preference shares.
    B. Common equity.

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C. Debt.

26. Compared to the exit route chosen, the least likely alternate exit route for Skiffy, Inc investment is a(n):

A. IPO.
B. Private equity firm.
C. Liquidation.

Questions 27-30 relate to Equity Investments.

Ginny Lyon Case Scenario

Ginny Lyon is the director of research at Remy Capital which specializes in identifying overvalued and undervalued securities. Lyon makes the following comments to the newly hired analysts:

Comment 1: "An active manager attempts to achieve positive excess risk-adjusted return. But to detect mispricing is not easy; hence, it is important to understand the possible sources of perceived mispricing."

Comment 2: "Remy Capital invests in distressed securities representing companies in financial distress. The valuation process involves identifying the investment and resale value, in short,the liquidation value of such companies."

Comment 3: "An analyst at Remy Capital is required to evaluate the reasonableness of the expectations implied by the security's market price by comparing the market's implied expectations with his own outlook."

27. With respect to Comment 1, perceived mispricing is *most likely* the difference between:

A. estimated intrinsic value and market price.
B. intrinsic value and estimated value.
C. intrinsic value and market price.

28. The sources of perceived mispricing are most likely:

A. true mispricing or alpha and the error in the intrinsic value estimate.
B. true, unobservable intrinsic value and the error estimate.

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C. valuation estimate less the unobservable intrinsic value, and going-concern value.

29. With respect to Comment 2, which of the following statements is least likely correct?

A. For most companies, the going-concern value is greater than the liquidation value.
B. The value of nonperishable inventory if liquidated immediately is higher rather than its value if it were to be sold over a longer time.
C. An analyst will typically forecast free cash flow of a financially sound company rather than estimating its liquidation value.

30. According to Comment 3, analysts at Remy Capital use valuation techniques to:

A. infer market expectations.
B. provide fairness opinions.
C. to value acquisitions.

Questions 31-34 relate to Portfolio Management.

Brie Lars Case Scenario

Brie Lars is a portfolio manager for Mega Inc., an appliance manufacturer. At the quarterly meeting with the client, Brie explains that she uses multifactor models as a guide to asset allocation. In particular she uses the arbitrage pricing theory (APT) to model asset return. She describes the three main assumptions of the APT model:

Assumption 1: A factor model can be used to explain asset returns.

Assumption 2: No arbitrage opportunities are possible in a well-diversified portfolio.

Assumption 3: Adding assets to a diversified portfolio, adds to factor risk and to its specific risk.

She explains that she evaluates different funds in the market and seeks to exploit arbitrage opportunities among them. She presents an example of different portfolios using a one-factor model that explains returns. The data is presented below:

Exhibit 1: Portfolio information for a one-factor model

Portfolio	Expected return	Factor sensitivity
A	15.0%	0.8
B	16.0%	1.0
C	19.0%	1.2

31. Which of Brie's assumptions underlying APT is *least likely* correct?

    A. Assumption 1.
    B. Assumption 2.
    C. Assumption 3.

32. Based on Exhibit 1, can an arbitrage portfolio be created with a combination of portfolios A, B and C?

    A. No.
    B. Yes, the portfolio would earn an expected return of 1.0%.
    C. Yes, the portfolio would earn an expected return of 17.0%.

33. Assuming that portfolio A and B's returns are represented by a single-factor equation of $E(R_p) = RF + \lambda_1\beta_p$, the value of λ_1 is *closest* to:

    A. 0.05.
    B. 0.025.
    C. 0.010.

34. Based on its factor sensitivity, portfolio B can be best characterized as:

    A. an arbitrage portfolio.
    B. a market-neutral portfolio.
    C. a pure factor portfolio.

Questions 35-40 relate to Fixed Income.

Giyani Investment Advisers Case Scenario

Giyani Investment Advisers is a wealth management firm looking to increase its exposure in fixed-income securities. Jai Aakash, the chief investment officer of the firm, would like to add bonds with embedded options to the firm's bond portfolio. Aakash decides to ask Rekha Datta, the firm's senior analyst, to select and analyze bonds for possible inclusion in the firm's bond portfolio.

Datta first identifies two corporate bonds that are callable at par with similar maturity, credit quality and call dates. To account for risk, Datta uses the option adjusted spread (OAS) approach for the bonds, assuming an interest rate volatility of 20%. Results from Datta's analysis are summarized in Table 1.

Table 1. Summary Results of Rekha's Analysis Using the OAS Approach

Bond	OAS (in bps)
Bond A	45.50
Bond B	50.50

Next Datta examines four bonds issued by Indigo Motors given in Table 2. These bonds mature in four years and have the same credit rating. Bond D and Bond E though identical to Bond C, an option-free bond, include an embedded option.

Table 2. Bonds Issued by Indigo Motors

Bond	Coupon	Special Provision
Bond C	6.00% annual	
Bond D	6.00% annual	Putable at par at the end of years 2 and 3
Bond E	6.00% annual	Callable at par at the end of years 2 and 3
Bond F	Six-month Libor Semi-annually, set in arrears	

Aakash also wants Datta to determine the sensitivity of Bond C's price to a 30 bps parallel shift of the benchmark yield curve. The results of Datta's calculations are shown in Table 3.

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Table 3. Summary Results of Rekha's Analysis about the Sensitivity of Bond C's Price to a Parallel Shift of the Benchmark Yield Curve

Magnitude of the Parallel Shift in the Benchmark Yield Curve	0 bps	+30 bps	−30 bps
Full Price of Bond C	1005.5	1004.5	1006.5

Finally, Datta selects the two bonds issued by Galaxy International, given in Table 4. These bonds are close to their maturity date and are identical, except that Bond G includes a conversion option. Galaxy's common stock is currently trading at USD135 per share.

Table 4. Bonds Issued by Galaxy International

Bond	Type of Bond
Bond G	Convertible bond with a conversion price of USD165
Bond H	Identical to Bond G except that it does not include a conversion option

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35. Based on Table 1, Bond A relative to Bond B, is *most likely*:

    A. overpriced.
    B. fairly priced.
    C. underpriced.

36. The effective duration of Bond F is:

    A. lower than or equal to 1.0
    B. lower than or equal to 4.0
    C. lower than or equal to 0.5

37. In Table 2, the bond whose effective duration will shorten if interest rates rise is:

    A. Bond C
    B. Bond D
    C. Bond E

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38. The effective duration of Bond C is *closest* to:

   A. 33.15
   B. 3.315
   C. 0.3315

39. The value of Bond G is equal to the value of Bond H:

   A. plus the value of a call option on Galaxy's bond.
   B. plus the value of a call option on Galaxy's common stock.
   C. minus the value of a call option on Galaxy's common stock.

40. The minimum value of Bond G is equal to the:

   A. lesser of the conversion value of Bond G and the current value of Bond H.
   B. greater of the conversion value of Bond G and the current value of Bond H.
   C. greater of the current value of Bond H and a call option on Galaxy's common stock.

Questions 41-44 relate to Derivatives.

Magna Corp. Case Scenario

Magna Corp. plans to take out a three-month loan of USD1,000,000 in three months' time to meet its working capital needs. The company's CFO, Adam Sand CFA, was concerned about an increase in interest rates during that time. Therefore, he had entered into a pay-fixed forward rate agreement three months ago with a notional principal of USD1,000,000. The LIBOR rate summary is presented below:

	Rate three months ago	Current rate
1 month LIBOR	1.00%	1.20%
3 month LIBOR	1.05%	1.30%
6 month LIBOR	1.10%	1.35%
9 month LIBOR	1.15%	1.35%

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Adam would like to evaluate the company's current position on the FRA.

41. The forward rate at which the company had initiated its FRA is *closest* to:

     A. 1.19 %
     B. 1.24%
     C. 1.31%

42. The forward rate at which the company had initiated its FRA is *closest* to:

     A. the 3 month LIBOR 3 months from now
     B. the 3 month LIBOR 6 months from now
     C. the forward rate

43. The current forward rate for a notional loan beginning in three months with three months to maturity is *closest* to:

     A. 1.4 %
     B. 1.15 %
     C. 1.35 %

44. The current value of the company's position on the FRA is *closest* to:

     A. USD 400
     B. USD 405
     C. USD 397