Question #1 of 180

Question ID: 1420390

Which of the following statements about ethical behavior is *most accurate*?

A) Legal standards typically set a higher standard of behavior than ethical standards.

B) Personal traits are the most important determinant of the ethical quality of one’s behavior.

C) Unethical behavior in the investment industry increases the cost of capital for businesses.

Explanation

Unethical behavior in the investment industry increases the cost of capital for businesses by increasing savers' perceived risk of providing funds, causing them to demand a higher rate of return on the capital they provide. Situational influences external to an individual are claimed to be a more important determinant of ethical behavior than personal traits. Ethical standards often set a higher standard of behavior than legal standards.

For Further Reference:

(Study Session 19, Module 56.1, LOS 56.g)

CFA® Program Curriculum, Volume 6, page 267

Question #2 of 180

Question ID: 1420400

While at dinner a member overhears a well-known and influential analyst from a different firm tell his companion that he will be raising his recommendation on Tree Products from hold to buy when he appears on a morning talk show the next day. Before the broadcast, the member buys 1,000 shares of Tree Products for her own account. The member has violated the Standard relating to:

A) fair dealing.

B) diligence and reasonable basis.

C) material nonpublic information.

Explanation

A change in investment recommendation by a well-known and influential analyst is likely to affect the market price and is considered material information, so acting on this information before it has been released is prohibited by Standard II(A) Material Nonpublic Information. Because the member does not work for the analyst's firm, this is not addressed by Standard III(B) Fair Dealing. Having a reasonable basis does not apply to a member's own personal trades.

For Further Reference:

(Study Session 19, Module 58.4, LOS 58.a, 58.b, 58.c)

CFA® Program Curriculum, Volume 6, page 305, 310, and 312

Question #3 of 180

Question ID: 1420394

Allen Winkler, CFA, recently had lunch with Kim Thompson, a former professor of his, who told him of a new valuation model she had developed. Winkler recreated Thompson's model with some revisions and back-tested it using data provided by Standard & Poor's (S&P) with impressive results. Winkler's firm launches a mutual fund based on the revised model, and Winkler provides a discussion of the principles underlying the model and the test results. Is Winkler required to credit Thompson for having developed the model and S&P as the source of the data?

A) Both of these sources must be cited. ✗

B) Neither of these sources must be cited. ✗

C) Only one of these sources must be cited. ✓

Explanation

Under Standard I(C) Misrepresentation, Winkler must identify Thompson as having developed the original model to avoid the prohibition against plagiarism. The only permitted exception is using factual information published by recognized financial and statistical reporting services such as S&P.

For Further Reference:

(Study Session 19, Module 58.2, LOS 58.a, 58.b, 58.c)

CFA® Program Curriculum, Volume 6, page 305, 310, and 312

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Question ID: 1420411