#1-79A

EASY INTERMEDIATE HARD

CFA® SAMPLE QUESTION – LEVEL I

Derivatives

Q: Compared to non-callable common shares, callable common shares:

CORRECT ANSWER:

Ⓒ **Have limited potential future total returns, an additional source of risk.**

The strike price provides a ceiling for the price at which investors can sell their shares; if the stock price rises above the strike price, the company will call the shares and pay the strike price, realizing a profit at the expense of the investor. Because both types of shares can go to zero, and thus have a similar downside, a lower upside translates to an additional source of risk for callable shares.

Choice "a" is incorrect. Callable shares can trade at a price below, equal to, or above that of their non-callable counterparts, depending on the difference in dividends and the strike price.

Choice "b" is incorrect. To compensate investors for their higher risk, callable shares usually pay a higher dividend.

CFA Society Hong Kong
Candidate Services

Mr. Zap Cheng, CFA
Candidate Services Committee

Date of issue:
1 Jan 2024