

Old Exam Questions  
Mutual Funds

**READ FIRST:** The following questions are reproduced from my previous exams. Exam formats have differed over time, so you may notice some differences in formatting or question style. The intent is that these questions will help you to practice, but it is **NOT** intended to replace your own study habits.

1. You are considering investing in a mutual fund with a net asset value of \$40. If the fund has a 20% front-end load, what would you pay for a share of this fund?
  - A. \$32
  - B. \$40
  - C. \$48
  - D. \$50
  - E. \$60
  
2. A mutual fund's \_\_\_\_\_ are implicitly included in the calculation of its net asset value, while its \_\_\_\_\_ are not.
  - A. Annual expenses; Loads
  - B. Loads; annual expenses
  - C. Both are included in the calculation of NAV
  - D. Neither is included in the calculation of NAV
  
3. You are analyzing a new mutual fund. The fund currently holds 1 million shares of Apple stock, at \$120 per share. Due to start-up costs, the fund has liabilities totaling \$40 million. If the fund has 2 million shares outstanding, what is its net asset value?
  - A. \$40
  - B. \$60
  - C. \$80
  - D. \$100
  - E. \$120

4. You are considering an investment in a newly founded mutual fund. The fund currently holds 1,000 shares of Under Armour at \$40 per share. You see that the fund lists liabilities totaling \$5,000. Moreover, the fund has 10,000 shares outstanding. What would you estimate is the value of a share in the fund?
- A. \$3.50
  - B. \$4
  - C. \$35
  - D. \$40
  - E. A different value
5. You are offered a share in a mutual fund that is worth \$45. The fund has a front end load of 10%. What would you pay for this share?
- A. \$40.50
  - B. \$45
  - C. \$47.50
  - D. \$50
  - E. A different value
6. Why might back-end loads be preferable to front-end loads?
- A. They imply lower fees
  - B. They tend to be lower
  - C. They typically phase out over time
  - D. None of these
7. A “mutual fund” as we know it is more specifically known as a(n) \_\_\_\_\_.
- A. Closed-end fund
  - B. Exchange traded fund
  - C. Open end fund
  - D. Unit investment trust
8. You are considering an investment in a mutual fund. The fund has a 3% per year expense ratio, and it charges a 4% back-end load that is reduced by 1% for each year you are invested in the fund. Suppose that the fund earns you 13% per year. What would be your return from this investment if you remain invested in the fund for 2 years? (HINT: Round intermediate calculations to 4 decimal places.)
- A. 16.16%
  - B. 18.58%
  - C. 19.75%
  - D. 23.33%
  - E. A different value

9. We generally don't see operating expenses or 12b-1 fees when we see returns for a mutual fund. Why is this?
- A. Most mutual funds don't charge fees
  - B. The fees are paid by investors directly
  - C. The fees are taken out of NAV prior to calculating return
  - D. The mutual fund manager generally pays the fees
10. A "mutual fund" is more appropriately known as a \_\_\_\_\_.
- A. Closed end fund
  - B. Exchange traded fund
  - C. Open end fund
  - D. Unit investment trust
11. You just sold your shares in a mutual fund. The fund had a back-end load of 6%, which was reduced by 1% for each year that you were invested. Moreover, the fund charged operating expenses of 3% per year, along with 12b-1 fees totaling 1% per year. You were invested in the fund for 2 years, and the fund averaged a 14% annual return over that time. What was your annual return on this investment?
- A. 7.14%
  - B. 7.53%
  - C. 7.78%
  - D. 8.18%
  - E. A different value
12. You just paid \$19 for a share of a Spyda mutual fund. If the fund charges a front end load of 5%, what is the value of the share you purchased?
- A. \$18.05
  - B. \$19
  - C. \$20
  - D. \$21
  - E. A different value
13. Frontline Funds offers a Google Fund. The fund holds 200,000 shares of Google stock, which are currently valued at \$750 per share. The fund claims liabilities of \$25 million. If the fund's net asset value is currently \$12.50 per share, how many shares are outstanding in the fund?
- A. 200,000
  - B. 1,000,000
  - C. 10,000,000
  - D. 100,000,000
  - E. A different value

14. You just sold your shares in a mutual fund that you have held for 4 years. The fund had a back end load of 5%, which phases out over 5 years. As you're sifting through statements, you see that the fund averaged a 14% return over that time, but you also find that it also charged you 3% in operating expenses and a 1% 12b-1 fee. What was your annual return on this investment?

**(Round all intermediate calculations to 4 decimal places)**

- A. 8.60%
  - B. 8.88%
  - C. 9.72%
  - D. 10.00%
  - E. A different value
15. You have calculated that the value of a share in the Toccoa Falls Large Growth Fund to be \$15. However, you find that it will actually cost you \$16 to purchase the share. What must the load on this mutual fund be?
- A. 5%
  - B. 6.25%
  - C. 6.67%
  - D. 7.5%
  - E. A different value
16. You are considering an investment in a mutual fund. You know that the fund's current net asset value is \$125, while its assets consist of \$10 million in Tangerine Computer and \$30 million in OBM. If the firm has 300,000 shares outstanding, what would you estimate its liabilities to be?
- A. \$2,500,000
  - B. \$2,750,000
  - C. \$3,000,000
  - D. \$7,500,000
  - E. A different value
17. You want to purchase a share of a mutual fund. You figure that the share is worth \$24, but you know that the fund has a 4% front end load. What price would you pay for this share?
- A. \$24
  - B. \$24.96
  - C. \$25
  - D. \$25.20
  - E. A different value

18. You invested in a mutual fund for 4 years. Over that time, the fund earned returns of 11% each year. However, you paid fees totaling 1% each year. You were also responsible for a 3% back end load that phased out over 3 years. What was your annual return over this period?
- A. 6.9%
  - B. 8.1%
  - C. 9.2%
  - D. 10%
  - E. A different value
19. [Quantitative] You are planning to invest in a mutual fund. The fund holds a portfolio worth approximately \$800 million, with liabilities valued at approximately \$24 million. If the fund has 100 million shares outstanding, what is the net asset value of this fund?
- A. \$7.60
  - B. \$7.67
  - C. \$7.76
  - D. \$7.85
  - E. A different value
20. [Quantitative] 3 years ago, you invested in a mutual fund. The fund charged a 5% back-end load, which phased out over a 5 year period. It also charged management fees of 1.5% and 12b-1 fees of 1%. You sold your shares of the fund today. If the fund earned 21.5% returns each of the 3 years, what was your annual return?
- A. 17.67%
  - B. 17.9%
  - C. 18.2%
  - D. 19.19%
  - E. A different value
21. [Conceptual] The tendency of mutual funds to make their portfolios look better by purchasing high-performing stocks just before filing quarter-end disclosures is known as \_\_\_\_\_.
- A. Fraud
  - B. Hiding
  - C. Regulation
  - D. Window-dressing
  - E. None of these

22. [Conceptual] Which type of mutual fund charge will likely have the smallest effect on your return if you are holding the shares for a long time?
- A. Back-end load
  - B. Front-end load
  - C. Management fee
  - D. 12b-1 fee
  - E. All have the same effect
23. [Quantitative] You are considering an investment in a mutual fund. You figure that the net asset value of the fund is \$36. The fund charges a 4% front-end load, and it has a total expense ratio of 3%. What price would you pay for a share of this fund?
- A. \$36
  - B. \$37.11
  - C. \$37.50
  - D. \$38.71
  - E. A different value
24. [Quantitative] You know that you could get a consistent 8% return from investing in bonds. You are comparing this strategy versus an investment in a mutual fund. The fund charges a 3% front end load, a 2% management fee, and a 1% 12b-1 fee. If you are investing over a 4 year period, what annual return would the fund need to earn pre-expenses for your annual return in the fund to equal what you could have earned with the bonds?
- A. 9.83%
  - B. 10.27%
  - C. 10.91%
  - D. 11.83%
  - E. A different value
25. [Conceptual] Which of the following is a similarity between a closed end fund from a mutual fund?
- A. Its price can drift away from its NAV
  - B. Its shares are non-redeemable
  - C. Its shares trade on an exchange
  - D. They tend to maintain less investments in liquid assets than a mutual fund
  - E. All of these are differences from a mutual fund