

Reading 1: Ethics and Trust in the Investment Profession

Question #1 of 17

Question ID: 683833

Which of the following *best* describes elements of a framework for ethical decision making?

- ✓ **A)** Identify relevant facts; consider influences and alternatives; decide and act; reflect on outcomes.
- ✗ **B)** State the objective; gather, process, and interpret the data; report the conclusions; update the analysis.
- ✗ **C)** Relevance; faithful representation; transparency; comprehensiveness; consistency.

Explanation

The framework for ethical decision making presented in the Level I CFA curriculum includes these elements:

- Identify relevant facts, stakeholders, ethical principles, and conflicts of interest.
- Consider alternative actions, situational influences, and whether to seek additional guidance.
- Decide and act.
- Reflect on whether the outcome was as expected, and why or why not.

References

Question From: Session 1 > Reading 1 > LOS f

Related Material:

- Key Concepts by LOS
-

Question #2 of 17

Question ID: 683824

Which of the following statements about a code of ethics is *most accurate*? A code of ethics:

- ✗ **A)** must include rules-based standards of conduct.
- ✓ **B)** does not need to include standards of conduct.
- ✗ **C)** must include principles-based standards of conduct.

Explanation

A code of ethics may include standards of conduct, but does not require them.

References

Question From: Session 1 > Reading 1 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #3 of 17

Question ID: 683828

Unethical behavior by a financial professional harms:

- X **A)** only clients and other employees.
- X **B)** only clients.
- ✓ **C)** clients, other employees, and society.

Explanation

By reducing trust in the financial services profession, unethical behavior can harm clients, other financial services employees, and society, by increasing the perceived risk of investing, increasing the cost of capital, and affecting the allocation of capital for the entire economy.

References

Question From: Session 1 > Reading 1 > LOS d

Related Material:

- Key Concepts by LOS
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Question #4 of 17

Question ID: 683827

Unethical behavior by individuals in the investment industry is *most likely* to:

- ✓ **A)** decrease the rate of economic growth.
- X **B)** increase the overall profits of financial services firms.
- X **C)** decrease financing costs for businesses.

Explanation

Unethical behavior in the investment industry can divert capital away from its highest valued uses, which decreases the growth rate of the economy. In the long run, unethical behavior decreases profits for financial services firms by discouraging potential clients from using their services. When savers and investors distrust the investment industry they provide less capital and demand a higher return for its use, which increases the cost of capital for businesses.

References

Question From: Session 1 > Reading 1 > LOS d

Related Material:

- Key Concepts by LOS
-

Question #5 of 17

Question ID: 683834

A framework for ethical decision making is *most appropriately* applied to:

- X **A)** reduce the need to maintain a large compliance department.
- ✓ **B)** aid decision makers in considering alternatives and their potential impacts.
- X **C)** determine whether actions are legal.

Explanation

A framework for ethical decision making is a way to help decision makers consider alternatives and their impact on stakeholders.

References

Question From: Session 1 > Reading 1 > LOS f

Related Material:

- Key Concepts by LOS
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Question #6 of 17

Question ID: 683820

Ethics *least likely* refers to:

- ☐ A) the study of good and bad behavior.
- ☐ B) moral principles to guide behavior.
- ☒ C) a person's beliefs about right and wrong behavior.

Explanation

An individual's beliefs are not ethics as it is used in the Level I CFA curriculum. Ethics are described as commonly accepted principles of good and bad behavior and the study of good and bad behavior.

References

Question From: Session 1 > Reading 1 > LOS a

Related Material:

- Key Concepts by LOS
-

Question #7 of 17

Question ID: 683835

An ethical decision-making framework:

- ☐ A) focuses on the near term impact on all stakeholders.
- ☐ B) primarily addresses compliance with regulatory issues.
- ☒ C) considers alternative actions and unintended consequences.

Explanation

An ethical decision-making framework is designed to ensure that alternative actions and potential unintended consequences of decisions are considered.

References

Question From: Session 1 > Reading 1 > LOS f

Related Material:

- Key Concepts by LOS
-

Question #8 of 17

Question ID: 683823

A code of ethics:

- ☐ A) provides the public with assurance of a minimum level of ethical behavior.
- ☒ B) may be rules-based or principles-based.
- ☐ C) should not be used for marketing purposes.

Explanation

A code of ethics may be rules-based or principles-based. There can be no assurance that none of a group or professionals will violate a code of ethics. There is no requirement that a group of professionals agreeing to a code of ethics cannot be held out to the public as a positive thing for clients.

References

Question From: Session 1 > Reading 1 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #9 of 17

Question ID: 683826

Surveys have shown that, compared to other professions, the trust the public has in financial services professionals is:

- ☒ A) near the bottom of all professions.
- ☐ B) higher than for other professions.
- ☐ C) only average among professions.

Explanation

According to a survey cited by CFA Institute, trust in the financial services profession was lower than trust in any other profession in the survey.

References

Question From: Session 1 > Reading 1 > LOS c

Related Material:

- Key Concepts by LOS
-

Question #10 of 17

Question ID: 683825

Challenges to ethical behavior are *most likely* to arise from:

- ☒ A) situational influences.
- ☐ B) inadequate training.
- ☐ C) internal motivations.

Explanation

Situational influences, which are factors external to a decision maker, are the most likely source of challenges to ethical behavior.

References

Question From: Session 1 > Reading 1 > LOS c

Related Material:

- Key Concepts by LOS
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Question #11 of 17

Question ID: 683822

Standards of conduct are *most* accurately described as:

- ✓ **A)** giving members of a group a minimum level of acceptable behavior.
- X **B)** providing the public with the values and general expectations for a group of professionals.
- X **C)** a necessary part of any ethical code.

Explanation

Standards of conduct address specific minimum levels or expected behavior in various circumstances, while a code of ethics communicates provides the values and general expectations for professional behavior. A code of ethics does not necessarily include standards of conduct.

References

Question From: Session 1 > Reading 1 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #12 of 17

Question ID: 683830

CFA Institute Standards of Professional Conduct are *most* accurately described as being based on:

- X **A)** accepted legal standards.
- ✓ **B)** a code of ethics.
- X **C)** the best interests of members and candidates.

Explanation

The Standards of Professional Conduct are based on principles stated in the CFA Institute Code of Ethics.

References

Question From: Session 1 > Reading 1 > LOS e

Related Material:

- Key Concepts by LOS
-

Question #13 of 17

Question ID: 683829

Unethical behavior by financial professionals:

- X **A)** does not affect allocation of capital.
- X **B)** increases incomes for the profession.
- ✓ **C)** increases risk and the cost of capital.

Explanation

In the long run, unethical behavior will decrease trust in financial professionals and the use of financial professionals by the public, ultimately decreasing incomes for the profession. Unethical behavior, such as misleading clients, can adversely affect the allocation of financial capital.

References

Question From: Session 1 > Reading 1 > LOS d

Related Material:

- Key Concepts by LOS
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Question #14 of 17

Question ID: 683821

Which of the following characteristics distinguishes a profession from an occupation? Members of a profession:

- X **A)** view their work as a calling.
- X **B)** are better compensated for their services.
- ✓ **C)** abide by a code of ethics.

Explanation

One of the defining characteristics of a profession according to the Level I CFA curriculum is that its members agree to abide by a common code of ethics.

References

Question From: Session 1 > Reading 1 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #15 of 17

Question ID: 683832

Which of the following statements about legal and ethical standards is *most* accurate?

- X **A)** Unethical acts are always illegal.
- X **B)** Illegal acts are always unethical.
- ✓ **C)** Some illegal acts are considered ethical.

Explanation

Some illegal acts, such as acts of civil disobedience, are considered ethical by many people. All unethical behavior is not necessarily illegal.

References

Question From: Session 1 > Reading 1 > LOS e

Related Material:

- Key Concepts by LOS
-

Question #16 of 17

Question ID: 683831

Which of the following statements about legal and ethical standards is *most* accurate?

- ☐ A) Ethical standards are a subset of legal standards.
- ☐ B) Legal standards are a subset of ethical standards.
- ☒ C) Ethical and legal standards often intersect, but not always.

Explanation

Ethical and legal standards are not subsets of each other. Some actions that are legal might not be ethical, and some actions that are ethical might not be legal.

References

Question From: Session 1 > Reading 1 > LOS e

Related Material:

- Key Concepts by LOS
-

Question #17 of 17

Question ID: 683819

Ethics are *most accurately* defined as:

- ☐ A) a belief about proper conduct.
- ☒ B) the study of moral principles.
- ☐ C) a written code of standards.

Explanation

Ethics refers to the study of moral principles. Ethics is broader than written codes of standards or a particular belief about proper conduct.

References

Question From: Session 1 > Reading 1 > LOS a

Related Material:

- Key Concepts by LOS