What's New for 2005 Level 1 Curriculum

1. Assigned Readings

- 2005 CFA Level I Candidate Readings (CFA Institute, 2004) New Edition
- Standards of Practice Handbook, 8th edition (AIMR, 1999)
- Quantitative Methods for Investment Analysis, 2nd edition, Richard A. DeFusco, Dennis W. McLeavey, Jerald E. Pinto, and David E. Runkle (CFA Institute, 2004) New Edition
- Economics: Private and Public Choice, 10th edition, James D. Gwartney, Richard L. Stroup, Russell S. Sobel, and David A. Macpherson (South-Western, 2003)
- Fundamentals of Financial Management, 8th edition, Eugene F. Brigham and Joel F. Houston (Dryden, 1998)
- International Investments, 5th edition, Bruno Solnik and Dennis McLeavey (Addison Wesley, 2003)
- The Analysis and Use of Financial Statements, 3rd edition, Gerald I. White, Ashwinpaul C. Sondhi, and Dov Fried (Wiley, 2003) Investment Analysis and Portfolio Management, 7th edition, Frank K. Reilly and Keith C. Brown (South-Western, 2003)
- Fixed Income Analysis for the Chartered Financial Analyst® Program, 2nd edition, Frank J. Fabozzi (Frank J. Fabozzi Associates, 2004) New Edition
- Analysis of Derivatives for the CFA® Program, Don Chance (AIMR, 2003)

Note:

In 2005 L1 curriculum, there are new editions for a few textbooks (labeled in red), including CFA Level I Candidate Readings, Quantitative Methods for Investment Analysis, and Fixed Income Analysis for the Chartered Financial Analyst® Program.

2. New LOS

Study Session	New LOS
SS1	<u>SS1</u>
Ethical and	5.g) describe the required verification procedures (including
Professional Standards	pre-verification procedures).
<u>SS2-3</u>	<u>SS2</u>
Quantitative Methods	1.
	A. "The Time Value of Money"
	a) explain an interest rate as the sum of a real risk-free rate and
	premiums that compensate investors for distinct types of risk;
	k) explain the cash flow additivity principle in time value of money
	applications.
	B. "Discounted Cash Flow Applications"
	The candidate should be able to
	a) calculate and interpret the net present value (NPV) and the internal
	rate of return (IRR) of an investment;
	b) contrast the NPV rule to the IRR rule;
	c) discuss problems associated with the IRR method;
	a) distinguish between money-weighted and time-weighted rates of return:
	e) calculate the money-weighted and time-weighted rates of return of a
	portfolio;
	f) calculate the bank discount yield, holding period yield, effective annual yield, and money market yield for a U.S. Treasury bill:
	g) convert among holding period yields, money market yields, and
	effective annual yields;
	h) calculate the bond equivalent yield.
	C. "Statistical Concepts and Market Returns"
	a) differentiate between descriptive statistics and inferential statistics;
	SS3
	B. "Sampling and Estimation"

	j) describe the properties of Student's t-distribution;
	k) calculate and explain degrees of freedom;
	C. "Hypothesis Testing"
	d) discuss the choice of the null and alternative hypotheses;
	e) define and interpret a test statistic;
	g) define and interpret a significance level and explain how significance
	levels are used in hypothesis testing;
	q) distinguish between parametric and nonparametric tests, and describe
	the situations in which the use of nonparametric tests may be
	appropriate.
	D. "Correlation and Regression"
	f)explain the assumptions underlying linear regression;
<u>SS4–6</u>	<u>SS4</u>
Economics	D. "Modern Macroeconomics: Monetary Policy"
	c) identify the components of the equation of exchange, and discuss the
	implications of the equation for monetary policy;
	SS6
	2. A. "Foreign Exchange"Problems: 1-13, 17-20
<u>SS7-10</u>	<u>SS7</u>
Financial Statement	Preliminary Reading Learning Outcomes
Analysis	P1.
	F. "Long-Term Assets"
	f) identify the types of intangible assets, and describe how the accounting
	treatment for goodwill differs from the accounting treatment for other
	intangible assets.
	J. "The Statement of Cash Flows"
	d) prepare the statement of cash flows for investing activities and
	financing activities.
	P2.
	"Framework for Financial Statement Analysis"
	d) identify the accounting gualities (e.g., relevance, reliability, predictive
	value, timeliness) set forth in Statement of Financial Accounting
	Concepts (SFAC) 2, and discuss how these qualities provide useful
	information to an analyst:
	Deading Assignments
	<u>Reading Assignments</u>
	1. A. "Accounting income and Assets: The Accrual Concept"
	b) explain the importance of the matching principle for revenue and
	expense
	i) discuss managerial discretion in areas such as classification of good
	news/bad news, income smoothing, big bath behavior, and accounting
	changes, and explain how this discretion can affect the financial
	statements;
	SS10
	1 A "Analysis of Income Taxes"
	d) discuss the implications of a valuation allocation (i.e. when it is
	required what impact it has on the financial statements, and how it might
	affect an analyst's review of a company).
SS11	No new LOS
Corporate Finance	
SS12	No new LOS
Portfolio Management	
SS13	No new LOS
Securities Markets	
SS14	SS14
Equity Investments	2. Equity: Concepts and Techniques"
	The candidate should be able to
	a) classify business cycle states and identify for each state, attractive
	investment opportunities.
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	 b) discuss, with respect to global industry analysis, the key elements related to return expectations; c) describe the industry life cycle and identify an industry's stage in its life cycle; d) calculate a concentration ratio and a Herfindahl index; e) discuss, with respect to global industry analysis, the elements related to return and a terminal statements.
	f) describe the basic forces that determine industry competition. Problem:6
SS15-16 Debt Investments	 <u>SS15</u> D. "Understanding Yield Spreads" c) explain the basic theories of the term structure of interest rates (i.e., pure expectations theory, liquidity preference theory, and market segmentation theory); d) describe the implications of each theory for the shape of the yield curve; e) explain the different types of yield spread measures (e.g., absolute yield spread, relative yield spread, yield ratio), and compute yield spread measures given the yields for two securities; <u>SS16</u> B. "Yield Measures, Spot Rates, and Forward Rates" h) compute the theoretical Treasury spot rate curve, using the method of bootstrapping and given the Treasury par yield curve; c. "Introduction to the Measurement of Interest Rate Risk" e) describe the price volatility characteristics of putable bonds;
SS17 Derivative Investments	No new LOS
<u>SS18</u>	No new LOS
Investments	

<u>Note</u>:

- The above info is based on the comparison between 2005 and 2004 official study guide. The two
 lists only focus on NEW LOS/Readings and thus LOS/Readings removed from curriculum are not
 stated.
- More CFA info can be found on my homepage CFA Study Room: <u>http://normancafe.atspace.com/StudyRoom.htm</u>