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**QUESTION 1**

If the seller is in a low tax bracket and the buyer in a high one, it may be advantageous to:

- A. Structure the program to increase the interest rate and lower the price
- B. Structure the program to increase the interest rate and increase the price
- C. Structure the program to decrease the interest rate and increase the price
- D. Structure the program to decrease the interest rate and decrease the price

Correct Answer: A

QUESTION 2

Fisher Black developed a technique to value American stock options using the Black- Scholes model called the pseudo-American call option model. The steps in the method are as follows EXCEPT:

- A. Compute the adjusted market price of the stock by deducting the present value, using the risk-free rate, of the future dividends payable during the remaining life of the option
- B. For each pseudo-option assumed to expire on a dividend date, deduct from the exercise price of the option the dividend payable on the date and the present value, using the risk-free rate, of all the remaining dividends to be paid after the dividend date during the term of the option
- C. Select the European option with the highest value as the value of the American option
- D. Using the Black-Scholes model, compute the value of each of the pseudo-options using unadjusted underlying stock price.

Correct Answer: D

QUESTION 3

The direction and magnitude of the company-specific risk premium may be based on an analysis of some factors. Which of the following is/are out of such factors?

- A. Leverage
- B. Size
- C. Level of current competition
- D. Industry risk

Correct Answer: ABD

QUESTION 4



If a \$1000 per share value of convertible bond is issued for \$1000, and is convertible into 20 shares of issuer's common stock that pays no dividend, there will be no economic benefit in converting the debt to stock as long as the common stock is selling for less than \$50 per share. If the bond value is indeed in the equity-equivalent region, as the value of a single share of common stock increases \$1, the bond value will increase:

- A. \$25
- B. \$50
- C. \$20
- D. \$10

Correct Answer: C

QUESTION 5

When specifying, who is to provide the valuation services, the important distinction is whether the client is retaining the appraisal firm itself or the individual appraiser employed by the firm. The common practice is:

- A. To retain the individual appraiser rather than the firm
- B. To retain the firm rather than individual appraiser, even though the expert witnesses testify based upon their individual expertise and opinions
- C. To retain the individual since the firm is responsible for completing the assignment regardless of impairment the individual's capability to perform the work
- D. To retain firm as such practice also tends to provide discontinuity in retention of working papers and related records, marking them accessible if they are needed months or even years later as they frequently are

Correct Answer: B

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