

CFA® SAMPLE QUESTION - LEVEL I

Portfolio Management

Q: An arbitrage opportunity is BEST DESCRIBED as:

CORRECT ANSWER:

Ⓒ The ability to make a profit without requiring any net investment.

An arbitrage opportunity is defined as the ability to make a riskless profit **without requiring any net investment**. Because derivative contracts trade in a different marketplace than the assets that underlie them, arbitrage opportunities do exist. However, they are quickly exploited and thus short-lived.

Choice "a" is incorrect. In an "efficient" market, arbitrage opportunities would not exist because the price of any financial asset would be rational or in equilibrium. In an "inefficient" market, arbitrage opportunities are available.

Choice "b" is incorrect. An arbitrage opportunity is designed to make a profit. However, the strategy would have no risk attached.



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