

# CHAPTER 2--THE ASSET ALLOCATION DECISION

Student: \_\_\_\_\_

1. Experts suggest life insurance coverage should be seven to ten times an individual's annual salary.

True False

2. Term life insurance provides both a death benefit and a savings plan.

True False

3. Most experts recommend a cash reserve of at least one year's worth of living expenses.

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4. The spending phase occurs when investors are relatively young.

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11. Return is the only important consideration when establishing investment objectives.

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14. An appropriate investment objective for a typical 25-year-old investor is a low-risk strategy, such as capital preservation or current income.

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16. Average tax rate is defined as total tax payment divided by total income.

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20. An example of a unique need in an investment policy statement is related to the legal responsibilities of a fiduciary or trustee.

True False

21. Equity allocations of pension funds in Japan and Germany are similar to those in the United States.

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22. Investing 30 to 40 percent of your retirement funds in the company you work for is reasonable when they match funds.

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23. The majority of a pension fund's return is explained by asset allocation.

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24. The current outlay of money to guard against a potentially large future loss is commonly known as

- A. Asset management.
- B. Portfolio management.
- C. Minimizing risk.
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25. In an investment policy statement the objectives of an investor are expressed in terms of

- A. risk and return
- B. risk
- C. return
- D. time horizon
- E. liquidity needs

26. \_\_\_\_ phase is the stage when investors in their early-to-middle earning years attempt to accumulate assets to satisfy near-term needs, e.g., children's education or down payment on a home.

- A. Accumulation
- B. Spending
- C. Gifting
- D. Consolidation
- E. Divestiture

27. Which of the following is **not** a life cycle phase?

- A. Discovery phase
- B. Accumulation phase
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28. Which of the following is **not** a step in the portfolio management process?

- A. Develop a policy statement.
- B. Study current financial and economic conditions.
- C. Construct the portfolio.
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29. The first step in the investment process is the development of a(n)

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30. Which of the following is **not** considered to be an investment objective?

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31. \_\_\_\_ must be stated in terms of expected returns and risk. An investor's tolerance for risk must be established before returns objectives can be stated.

- A. Investment requirements
- B. Investment constraints
- C. Investment rewards
- D. Investment objectives
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32. \_\_\_\_ is an appropriate objective for investors who want their portfolio to grow in real terms, i.e., exceed the rate of inflation.
- A. Capital preservation
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33. \_\_\_\_ refer(s) to the ability to convert assets to cash quickly and at a fair market price and often increase(s) as one approaches the later stages of the investment life cycle.
- A. Liquidity needs
  - B. Time horizons
  - C. Liquidation values
  - D. Liquidation essentials
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34. The policy statement may include a \_\_\_\_ against which a portfolio's or portfolio manager's performance can be measured.
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  - B. Benchmark
  - C. Landmark
  - D. Reference point
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- A. Cultural differences.
  - B. The objectives stated in the investor's policy statement.
  - C. The types of assets that are appropriate for the investor.
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  - E. All of the above.

37. Research has shown that the asset allocation decision explains \_\_\_\_% of the variation in fund returns across all funds, and \_\_\_\_% of the variation in returns for a particular fund over time.
- A. 90 and 100.
  - B. 100 and 40.
  - C. 90 and 40.
  - D. 40 and 100.
  - E. 40 and 90.
38. Once the portfolio is constructed, it must be continuously
- A. Rebalanced.
  - B. Recycled
  - C. Reinvested
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39. Which of the following statements is **false**?
- A. Unrealized capital gains are taxable.
  - B. Realized capital gains are taxable.
  - C. Tax-exempt investments are attractive to individuals with high tax liabilities.
  - D. Returns comparisons should be made on an equivalent tax basis.
  - E. Tax exempt investors prefer tax exempt investments.
40. \_\_\_\_ gains are taxable and occur when an asset is sold for more than its basis (the value of the asset when it was purchased by the original owner, or inherited by the heirs of the original owner).
- A. Realized capital
  - B. Income
  - C. Portfolio
  - D. Nominal
  - E. Real
41. Which of the following statements is true?
- A. Except for tax-exempt investors and tax-deferred accounts, annual tax payments increase investment returns.
  - B. The only way to maintain purchasing power over time is to invest in bonds.
  - C. After adjusting for taxes, long-term bonds consistently outperform stocks.
  - D. An asset allocation decision for a taxable portfolio that does not include a substantial commitment to common stocks may make it difficult for the portfolio to maintain real value over time.
  - E. None of the above

42. Important reasons for constructing a policy statement include:

- A. Helps investors decide on realistic investment goals
- B. Create a standard by which to judge the performance of the portfolio manager
- C. Develop an instrument to judge risk
- D. Choices a and b
- E. All of the above

43. For an investor with a time horizon of 6 to 10 years and lower risk tolerance, an appropriate asset allocation strategy would be

- A. 100% stocks
- B. 100% cash
- C. 30% cash, 50% bonds, and 20% stocks
- D. 10% cash, 30% bonds, and 60% stocks
- E. 100% bonds

44. For an investor with a time horizon of 8 years and higher risk tolerance, an appropriate asset allocation strategy would be

- A. 100% stocks
- B. 100% cash
- C. 30% cash, 50% bonds, and 20% stocks
- D. 10% cash, 30% bonds, and 60% stocks
- E. 100% bonds

45. For an investor with a time horizon of 12 years and higher risk tolerance, an appropriate asset allocation strategy would be

- A. 100% stocks
- B. 30% cash, 50% bonds, and 20% stocks
- C. 10% cash, 30% bonds, and 60% stocks
- D. 50% bonds and 50% stocks
- E. 100% bonds

46. For an investor with a time horizon of 15 years and moderate risk tolerance, an appropriate asset allocation strategy would be

- A. 100% stocks
- B. 40% cash and 60% stocks
- C. 30% cash, 50% bonds, and 20% stocks
- D. 50% bonds, and 50% stocks
- E. 20% bonds, and 80% stocks

47. For an investor with a time horizon of 4 years and higher risk tolerance, an appropriate asset allocation strategy would be
- A. 100% cash
  - B. 30% cash, 50% bonds, and 20% stocks
  - C. 20% cash, 40% bonds, and 40% stocks
  - D. 10% cash, 40% bonds, and 50% stocks
  - E. 100% bonds
48. For an investor with a time horizon of 5 years and moderate risk tolerance, an appropriate asset allocation strategy would be
- A. 100% cash
  - B. 30% cash, 50% bonds, and 20% stocks
  - C. 20% cash, 40% bonds, and 40% stocks
  - D. 10% cash, 30% bonds, and 60% stocks
  - E. 100% bonds
49. John is 55 years old has \$55,000 outstanding on a mortgage and no other debt. John typically saves \$5,000 in an IRA account and another \$10,000 in a company pension. John is most likely in the:
- A. Discovery phase
  - B. Accumulation phase
  - C. Consolidation phase
  - D. Spending phase
  - E. Gifting phase
50. Which of the following is not a typical portfolio constraint?
- A. Liquidity needs
  - B. Risk tolerance
  - C. Time horizon
  - D. Tax concerns
  - E. Legal factors
51. Which of the following strategies seeks to increase the portfolio value by reinvesting current income in addition to capital gains?
- A. Capital appreciation
  - B. Capital preservation
  - C. Return preservation
  - D. Current income
  - E. Total return



52. Research from the 1970s to the 1990s found that over 90 percent of a fund's returns over time is explained by:

- A. Market timing
- B. Stock selection
- C. Manager selection
- D. Asset allocation
- E. All of the above

**53. Exhibit 2.1**

USE THE TAX TABLE PROVIDED BELOW FOR THE FOLLOWING PROBLEM(S)

|         | If Taxable Income | Then         | The Tax is |             |             |                    |
|---------|-------------------|--------------|------------|-------------|-------------|--------------------|
|         | Is Over           | But Not Over |            | This Amount | Plus This % | Of The Excess Over |
| Single  | \$0               | \$7,150      |            | 0           | 10%         | 0                  |
|         | \$7,150           | \$29,050     |            | 715         | 15%         | \$7,150            |
|         | \$29,050          | \$70,350     |            | \$4,000     | 25%         | \$29,050           |
|         | \$70,350          | \$146,750    |            | \$14,325    | 28%         | \$70,350           |
|         | \$146,750         | \$319,100    |            | \$35,717    | 33%         | \$146,750          |
|         | \$319,100         | -            |            | \$92,592.50 | 35%         | \$319,100          |
| Married | \$0               | \$14,300     |            | 0           | 10%         | 0                  |
| Filing  | \$14,300          | \$58,100     |            | 1430        | 15%         | \$14,300           |
| Jointly | \$58,100          | \$117,250    |            | \$8,000     | 25%         | \$58,100           |
|         | \$117,250         | \$178,650    |            | \$22,787.50 | 28%         | \$117,250          |
|         | \$178,650         | \$319,100    |            | \$39,979.50 | 33%         | \$178,650          |
|         | \$319,100         | -            |            | \$86,328    | 35%         | \$319,100          |

Refer to Exhibit 2.1. What is the marginal tax rate for a single individual with taxable income of \$85,000?

- A. 15%
- B. 25%
- C. 28%
- D. 33%
- E. 35%

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Refer to Exhibit 2.1. What is the tax liability for a single individual with taxable income of \$85,000?

- A. \$23,800
- B. \$18,427
- C. \$24,958
- D. \$16,867
- E. \$19,650

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Refer to Exhibit 2.1. What is the average tax for a single individual with taxable income of \$85,000?

- A. 13.57%
- B. 15.68%
- C. 21.68%
- D. 25.74%
- E. 29.55%

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|         | \$319,100         | -            |            | \$86,328    | 35%         | \$319,100          |

Refer to Exhibit 2.1. What is the tax liability for a married couple filing jointly with taxable income of \$125,000?

- A. \$23,800
- B. \$18,427
- C. \$24,958
- D. \$16,867
- E. \$19,650

57. What would the equivalent taxable yield be on an investment that offers a 6 percent tax exempt yield?

Assume a marginal tax rate of 28%.

- A. 0.125%
- B. 7.20%
- C. 6.48%
- D. 8.33%
- E. 32.14%

58. What would the after-tax yield be on an investment that offers a 6 percent fully taxable yield? Assume a marginal tax rate of 31%.

- A. 2.79%
- B. 6.48%
- C. 4.14%
- D. 7.20%
- E. 12.50%

59. The future value of \$50,000 invested today, at the end of 10 years assuming an interest rate of 7.5% per year, with semiannual compounding, is

- A. \$104,407.60
- B. \$103,051.58
- C. \$123,510.52
- D. \$210,673.43
- E. \$105,117.46

60. Assume that you invest \$750 at the end of each quarter for the next 20 years in a mutual fund. The annual rate of interest that you expect to earn in this account is 5.25%. The amount in the account at the end of 20 years is

- A. \$60,000.00
- B. \$105,039.84
- C. \$37,009.35
- D. \$123,510.52
- E. \$115,637.37

61. Assume that you invest \$1250 at the end of each of the next 15 years in a mutual fund. You currently have \$10,000 in the mutual fund. The annual rate of interest that you expect to earn in this account is 4.35%. The amount in the account at the end of 15 years is

- A. \$58,940.30
- B. \$28,750.00
- C. \$37,009.35
- D. \$44,630.81
- E. \$25,690.50

62. Someone in the 15 percent tax bracket can earn 8 percent annually on his investments in a tax-exempt IRA account. What will be the value of a \$10,000 investment after 5 years (assuming annual compounding)?

- A. \$ 6,805
- B. \$14,693
- C. \$15,528
- D. \$20,114
- E. \$50,000

63. Suppose the 8 percent investment of the previous problem is taxable rather than tax-deferred. What will be the after-tax value of his \$10,000 investment after 5 years (assuming annual compounding)?

- A. \$10,680
- B. \$11,765
- C. \$13,895
- D. \$14,693
- E. \$15,528

64. An individual in the 36% tax bracket invests \$5,000 in a tax-exempt IRA. If the investment earns 10% annually, what will be the value of the IRA after five years?
- A. \$6,600
  - B. \$6,818
  - C. \$7,500
  - D. \$8,053
  - E. \$10,879
65. An individual in the 15% tax bracket has \$10,000 invested in a tax-exempt IRA account. If the individual earns 8% annually before taxes and inflation is 2.5% per year, what is the real value of the investment in 20 years?
- A. \$23,211
  - B. \$28,467
  - C. \$29,178
  - D. \$37,276
  - E. \$46,610
66. An individual in the 36% tax bracket has \$20,000 invested in a tax-exempt account. If the individual earns 10% annually before taxes and inflation is 3.0% per year, what is the real value of the investment in 10 years?
- A. \$31,000
  - B. \$33,200
  - C. \$38,614
  - D. \$39,343
  - E. \$47,823
67. You currently have \$150,000 in an IRA designated for retirement. If you save an additional \$100 at the end of every month and expect to earn an annual return of 12%, how much do you expect to have in the IRA in 10 years?
- A. \$467,632
  - B. \$518,062
  - C. \$732,546
  - D. \$949,328
  - E. \$1,215,234

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- E. Real

41. Which of the following statements is true?

- A. Except for tax-exempt investors and tax-deferred accounts, annual tax payments increase investment returns.
- B. The only way to maintain purchasing power over time is to invest in bonds.
- C. After adjusting for taxes, long-term bonds consistently outperform stocks.
- D.** An asset allocation decision for a taxable portfolio that does not include a substantial commitment to common stocks may make it difficult for the portfolio to maintain real value over time.
- E. None of the above

42. Important reasons for constructing a policy statement include:

- A. Helps investors decide on realistic investment goals
- B. Create a standard by which to judge the performance of the portfolio manager
- C. Develop an instrument to judge risk
- D.** Choices a and b
- E. All of the above

43. For an investor with a time horizon of 6 to 10 years and lower risk tolerance, an appropriate asset allocation strategy would be

- A. 100% stocks
- B. 100% cash
- C.** 30% cash, 50% bonds, and 20% stocks
- D. 10% cash, 30% bonds, and 60% stocks
- E. 100% bonds

44. For an investor with a time horizon of 8 years and higher risk tolerance, an appropriate asset allocation strategy would be

- A. 100% stocks
- B. 100% cash
- C. 30% cash, 50% bonds, and 20% stocks
- D.** 10% cash, 30% bonds, and 60% stocks
- E. 100% bonds

45. For an investor with a time horizon of 12 years and higher risk tolerance, an appropriate asset allocation strategy would be

- A.** 100% stocks
- B. 30% cash, 50% bonds, and 20% stocks
- C. 10% cash, 30% bonds, and 60% stocks
- D. 50% bonds and 50% stocks
- E. 100% bonds

46. For an investor with a time horizon of 15 years and moderate risk tolerance, an appropriate asset allocation strategy would be

- A. 100% stocks
- B. 40% cash and 60% stocks
- C. 30% cash, 50% bonds, and 20% stocks
- D. 50% bonds, and 50% stocks
- E.** 20% bonds, and 80% stocks

47. For an investor with a time horizon of 4 years and higher risk tolerance, an appropriate asset allocation strategy would be
- A. 100% cash
  - B. 30% cash, 50% bonds, and 20% stocks
  - C.** 20% cash, 40% bonds, and 40% stocks
  - D. 10% cash, 40% bonds, and 50% stocks
  - E. 100% bonds
48. For an investor with a time horizon of 5 years and moderate risk tolerance, an appropriate asset allocation strategy would be
- A. 100% cash
  - B.** 30% cash, 50% bonds, and 20% stocks
  - C. 20% cash, 40% bonds, and 40% stocks
  - D. 10% cash, 30% bonds, and 60% stocks
  - E. 100% bonds
49. John is 55 years old has \$55,000 outstanding on a mortgage and no other debt. John typically saves \$5,000 in an IRA account and another \$10,000 in a company pension. John is most likely in the:
- A. Discovery phase
  - B. Accumulation phase
  - C.** Consolidation phase
  - D. Spending phase
  - E. Gifting phase
50. Which of the following is not a typical portfolio constraint?
- A. Liquidity needs
  - B.** Risk tolerance
  - C. Time horizon
  - D. Tax concerns
  - E. Legal factors
51. Which of the following strategies seeks to increase the portfolio value by reinvesting current income in addition to capital gains?
- A. Capital appreciation
  - B. Capital preservation
  - C. Return preservation
  - D.** Current income
  - E. Total return

52. Research from the 1970s to the 1990s found that over 90 percent of a fund's returns over time is explained by:

- A. Market timing
- B. Stock selection
- C. Manager selection
- D. Asset allocation**
- E. All of the above

**53. Exhibit 2.1**

USE THE TAX TABLE PROVIDED BELOW FOR THE FOLLOWING PROBLEM(S)

|         | If Taxable Income | Then         | The Tax is |             |             |                    |
|---------|-------------------|--------------|------------|-------------|-------------|--------------------|
|         | Is Over           | But Not Over |            | This Amount | Plus This % | Of The Excess Over |
| Single  | \$0               | \$7,150      |            | 0           | 10%         | 0                  |
|         | \$7,150           | \$29,050     |            | 715         | 15%         | \$7,150            |
|         | \$29,050          | \$70,350     |            | \$4,000     | 25%         | \$29,050           |
|         | \$70,350          | \$146,750    |            | \$14,325    | 28%         | \$70,350           |
|         | \$146,750         | \$319,100    |            | \$35,717    | 33%         | \$146,750          |
|         | \$319,100         | -            |            | \$92,592.50 | 35%         | \$319,100          |
| Married | \$0               | \$14,300     |            | 0           | 10%         | 0                  |
| Filing  | \$14,300          | \$58,100     |            | 1430        | 15%         | \$14,300           |
| Jointly | \$58,100          | \$117,250    |            | \$8,000     | 25%         | \$58,100           |
|         | \$117,250         | \$178,650    |            | \$22,787.50 | 28%         | \$117,250          |
|         | \$178,650         | \$319,100    |            | \$39,979.50 | 33%         | \$178,650          |
|         | \$319,100         | -            |            | \$86,328    | 35%         | \$319,100          |

Refer to Exhibit 2.1. What is the marginal tax rate for a single individual with taxable income of \$85,000?

- A. 15%
- B. 25%
- C. 28%**
- D. 33%
- E. 35%

**54. Exhibit 2.1**

USE THE TAX TABLE PROVIDED BELOW FOR THE FOLLOWING PROBLEM(S)

|        | If Taxable Income | Then         | The Tax is |             |             |                    |
|--------|-------------------|--------------|------------|-------------|-------------|--------------------|
|        | Is Over           | But Not Over |            | This Amount | Plus This % | Of The Excess Over |
| Single | \$0               | \$7,150      |            | 0           | 10%         | 0                  |
|        | \$7,150           | \$29,050     |            | 715         | 15%         | \$7,150            |
|        | \$29,050          | \$70,350     |            | \$4,000     | 25%         | \$29,050           |
|        | \$70,350          | \$146,750    |            | \$14,325    | 28%         | \$70,350           |
|        | \$146,750         | \$319,100    |            | \$35,717    | 33%         | \$146,750          |

|         |           |           |  |             |     |           |
|---------|-----------|-----------|--|-------------|-----|-----------|
|         | \$319,100 | -         |  | \$92,592.50 | 35% | \$319,100 |
|         |           |           |  |             |     |           |
| Married | \$0       | \$14,300  |  | 0           | 10% | 0         |
| Filing  | \$14,300  | \$58,100  |  | 1430        | 15% | \$14,300  |
| Jointly | \$58,100  | \$117,250 |  | \$8,000     | 25% | \$58,100  |
|         | \$117,250 | \$178,650 |  | \$22,787.50 | 28% | \$117,250 |
|         | \$178,650 | \$319,100 |  | \$39,979.50 | 33% | \$178,650 |
|         | \$319,100 | -         |  | \$86,328    | 35% | \$319,100 |

Refer to Exhibit 2.1. What is the tax liability for a single individual with taxable income of \$85,000?

- A. \$23,800
- B. \$18,427**
- C. \$24,958
- D. \$16,867
- E. \$19,650

**55. Exhibit 2.1**

USE THE TAX TABLE PROVIDED BELOW FOR THE FOLLOWING PROBLEM(S)

|         | If Taxable Income | Then         | The Tax is |             |             |                    |
|---------|-------------------|--------------|------------|-------------|-------------|--------------------|
|         | Is Over           | But Not Over |            | This Amount | Plus This % | Of The Excess Over |
| Single  | \$0               | \$7,150      |            | 0           | 10%         | 0                  |
|         | \$7,150           | \$29,050     |            | 715         | 15%         | \$7,150            |
|         | \$29,050          | \$70,350     |            | \$4,000     | 25%         | \$29,050           |
|         | \$70,350          | \$146,750    |            | \$14,325    | 28%         | \$70,350           |
|         | \$146,750         | \$319,100    |            | \$35,717    | 33%         | \$146,750          |
|         | \$319,100         | -            |            | \$92,592.50 | 35%         | \$319,100          |
|         |                   |              |            |             |             |                    |
| Married | \$0               | \$14,300     |            | 0           | 10%         | 0                  |
| Filing  | \$14,300          | \$58,100     |            | 1430        | 15%         | \$14,300           |
| Jointly | \$58,100          | \$117,250    |            | \$8,000     | 25%         | \$58,100           |
|         | \$117,250         | \$178,650    |            | \$22,787.50 | 28%         | \$117,250          |
|         | \$178,650         | \$319,100    |            | \$39,979.50 | 33%         | \$178,650          |
|         | \$319,100         | -            |            | \$86,328    | 35%         | \$319,100          |

Refer to Exhibit 2.1. What is the average tax for a single individual with taxable income of \$85,000?

- A. 13.57%
- B. 15.68%
- C. 21.68%**
- D. 25.74%
- E. 29.55%

**56. Exhibit 2.1**

USE THE TAX TABLE PROVIDED BELOW FOR THE FOLLOWING PROBLEM(S)

|         | If Taxable Income | Then         | The Tax is |             |             |                    |
|---------|-------------------|--------------|------------|-------------|-------------|--------------------|
|         | Is Over           | But Not Over |            | This Amount | Plus This % | Of The Excess Over |
| Single  | \$0               | \$7,150      |            | 0           | 10%         | 0                  |
|         | \$7,150           | \$29,050     |            | 715         | 15%         | \$7,150            |
|         | \$29,050          | \$70,350     |            | \$4,000     | 25%         | \$29,050           |
|         | \$70,350          | \$146,750    |            | \$14,325    | 28%         | \$70,350           |
|         | \$146,750         | \$319,100    |            | \$35,717    | 33%         | \$146,750          |
|         | \$319,100         | -            |            | \$92,592.50 | 35%         | \$319,100          |
| Married | \$0               | \$14,300     |            | 0           | 10%         | 0                  |
| Filing  | \$14,300          | \$58,100     |            | 1430        | 15%         | \$14,300           |
| Jointly | \$58,100          | \$117,250    |            | \$8,000     | 25%         | \$58,100           |
|         | \$117,250         | \$178,650    |            | \$22,787.50 | 28%         | \$117,250          |
|         | \$178,650         | \$319,100    |            | \$39,979.50 | 33%         | \$178,650          |
|         | \$319,100         | -            |            | \$86,328    | 35%         | \$319,100          |

Refer to Exhibit 2.1. What is the tax liability for a married couple filing jointly with taxable income of \$125,000?

- A. \$23,800
- B. \$18,427
- C. \$24,958**
- D. \$16,867
- E. \$19,650

57. What would the equivalent taxable yield be on an investment that offers a 6 percent tax exempt yield?

Assume a marginal tax rate of 28%.

- A. 0.125%
- B. 7.20%
- C. 6.48%
- D. 8.33%**
- E. 32.14%

58. What would the after-tax yield be on an investment that offers a 6 percent fully taxable yield? Assume a marginal tax rate of 31%.

- A. 2.79%
- B. 6.48%
- C. 4.14%**
- D. 7.20%
- E. 12.50%



59. The future value of \$50,000 invested today, at the end of 10 years assuming an interest rate of 7.5% per year, with semiannual compounding, is

- A.** \$104,407.60
- B. \$103,051.58
- C. \$123,510.52
- D. \$210,673.43
- E. \$105,117.46

60. Assume that you invest \$750 at the end of each quarter for the next 20 years in a mutual fund. The annual rate of interest that you expect to earn in this account is 5.25%. The amount in the account at the end of 20 years is

- A. \$60,000.00
- B.** \$105,039.84
- C. \$37,009.35
- D. \$123,510.52
- E. \$115,637.37

61. Assume that you invest \$1250 at the end of each of the next 15 years in a mutual fund. You currently have \$10,000 in the mutual fund. The annual rate of interest that you expect to earn in this account is 4.35%. The amount in the account at the end of 15 years is

- A. \$58,940.30
- B. \$28,750.00
- C. \$37,009.35
- D.** \$44,630.81
- E. \$25,690.50

62. Someone in the 15 percent tax bracket can earn 8 percent annually on his investments in a tax-exempt IRA account. What will be the value of a \$10,000 investment after 5 years (assuming annual compounding)?

- A. \$ 6,805
- B.** \$14,693
- C. \$15,528
- D. \$20,114
- E. \$50,000

63. Suppose the 8 percent investment of the previous problem is taxable rather than tax-deferred. What will be the after-tax value of his \$10,000 investment after 5 years (assuming annual compounding)?

- A. \$10,680
- B. \$11,765
- C.** \$13,895
- D. \$14,693
- E. \$15,528

64. An individual in the 36% tax bracket invests \$5,000 in a tax-exempt IRA. If the investment earns 10% annually, what will be the value of the IRA after five years?

- A. \$6,600
- B. \$6,818
- C. \$7,500
- D.** \$8,053
- E. \$10,879

65. An individual in the 15% tax bracket has \$10,000 invested in a tax-exempt IRA account. If the individual earns 8% annually before taxes and inflation is 2.5% per year, what is the real value of the investment in 20 years?

- A. \$23,211
- B.** \$28,467
- C. \$29,178
- D. \$37,276
- E. \$46,610

66. An individual in the 36% tax bracket has \$20,000 invested in a tax-exempt account. If the individual earns 10% annually before taxes and inflation is 3.0% per year, what is the real value of the investment in 10 years?

- A. \$31,000
- B. \$33,200
- C.** \$38,614
- D. \$39,343
- E. \$47,823

67. You currently have \$150,000 in an IRA designated for retirement. If you save an additional \$100 at the end of every month and expect to earn an annual return of 12%, how much do you expect to have in the IRA in 10 years?

- A. \$467,632
- B.** \$518,062
- C. \$732,546
- D. \$949,328
- E. \$1,215,234