

1) Which of the following is *not* a money market instrument?

- A) Treasury bill
- B) commercial paper
- C) preferred stock
- D) bankers' acceptance

Answer: C

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

2) T-bills are issued with initial maturities of:

- I. 4 weeks
  - II. 16 weeks
  - III. 26 weeks
  - IV. 32 weeks
- A) I and II only
  - B) I and III only
  - C) I, II, and III only
  - D) I, II, III, and IV

Answer: B

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 3) When computing the bank discount yield, you would use \_\_\_\_\_ days in the year.
- A) 260
  - B) 360
  - C) 365
  - D) 366

Answer: B

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 4) A dollar-denominated deposit at a London bank is called \_\_\_\_\_.
- A) eurodollars
  - B) LIBOR
  - C) fed funds
  - D) bankers' acceptance

Answer: A

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 5) Money market securities are sometimes referred to as *cash equivalents* because \_\_\_\_\_.
- A) they are safe and marketable
  - B) they are not liquid
  - C) they are high-risk
  - D) they are low-denomination

Answer: A

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 6) The most marketable money market security is \_\_\_\_\_.
- A) Treasury bills
  - B) bankers' acceptances
  - C) certificates of deposit
  - D) common stock

Answer: A

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 7) The minimum *tick size*, or spread between prices in the Treasury bond market, is
- A) 1/8 of a point.
  - B) 1/16 of a point.
  - C) 1/32 of a point.
  - D) 1/128 of a point.

Answer: D

Difficulty: 2 Medium

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 8) An investor in a T-bill earns interest by \_\_\_\_\_.
- A) receiving interest payments every 90 days
  - B) receiving dividend payments every 30 days
  - C) converting the T-bill at maturity into a higher-valued T-note
  - D) buying the bill at a discount from the face value to be received at maturity

Answer: D

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

9) \_\_\_\_\_ would *not* be included in the EAFE index.

- A) Australia
- B) Canada
- C) France
- D) Japan

Answer: B

Difficulty: 3 Hard

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

10) \_\_\_\_\_ is considered to be an emerging market country.

- A) France
- B) Norway
- C) Brazil
- D) Canada

Answer: C

Difficulty: 2 Medium

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

11) Which one of the following is a true statement?

- A) Dividends on preferred stocks are tax-deductible to individual investors but not to corporate investors.
- B) Common dividends cannot be paid if preferred dividends are in arrears on cumulative preferred stock.
- C) Preferred stockholders have voting power.
- D) Investors can sue managers for nonpayment of preferred dividends.

Answer: B

Difficulty: 2 Medium

Topic: Equity Securities

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 12) The bid price of a Treasury bill is \_\_\_\_\_.
- A) the price at which the dealer in Treasury bills is willing to sell the bill
  - B) the price at which the dealer in Treasury bills is willing to buy the bill
  - C) greater than the ask price of the Treasury bill expressed in dollar terms
  - D) the price at which the investor can buy the Treasury bill

Answer: B

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 13) The German stock market is measured by which market index?
- A) FTSE
  - B) Dow Jones 30
  - C) DAX
  - D) Nikkei

Answer: C

Difficulty: 1 Easy

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 14) Deposits of commercial banks at the Federal Reserve are called \_\_\_\_\_.
- A) bankers' acceptances
  - B) federal funds
  - C) repurchase agreements
  - D) time deposits

Answer: B

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 15) Which of the following is *not* a true statement regarding municipal bonds?
- A) A municipal bond is a debt obligation issued by state or local governments.
  - B) A municipal bond is a debt obligation issued by the federal government.
  - C) The interest income from a municipal bond is exempt from federal income taxation.
  - D) The interest income from a municipal bond is exempt from state and local taxation in the issuing state.

Answer: B

Difficulty: 1 Easy

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 16) Which of the following is *not* a characteristic of a money market instrument?
- A) liquidity
  - B) marketability
  - C) low risk
  - D) maturity greater than 1 year

Answer: D

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 17) An individual who goes short in a futures position \_\_\_\_\_.
- A) commits to delivering the underlying commodity at contract maturity
  - B) commits to purchasing the underlying commodity at contract maturity
  - C) has the right to deliver the underlying commodity at contract maturity
  - D) has the right to purchase the underlying commodity at contract maturity

Answer: A

Difficulty: 1 Easy

Topic: Derivative Markets

Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

18) Which of the following is *not* a nickname for an agency associated with the mortgage markets?

- A) Fannie Mae
- B) Freddie Mac
- C) Sallie Mae
- D) Ginnie Mae

Answer: C

Difficulty: 1 Easy

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

19) Commercial paper is a short-term security issued by \_\_\_\_\_ to raise funds.

- A) the Federal Reserve
- B) the New York Stock Exchange
- C) large well-known companies
- D) all of these options

Answer: C

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

20) The maximum maturity on commercial paper is \_\_\_\_\_.

- A) 270 days
- B) 180 days
- C) 90 days
- D) 30 days

Answer: A

Difficulty: 2 Medium

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

21) Which one of the following is a true statement regarding the Dow Jones Industrial Average?

- A) It is a value-weighted average of 30 large industrial stocks.
- B) It is a price-weighted average of 30 large industrial stocks.
- C) It is a price-weighted average of 100 large stocks traded on the New York Stock Exchange.
- D) It is a value-weighted average of all stocks traded on the New York Stock Exchange.

Answer: B

Difficulty: 1 Easy

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

22) Treasury bills are financial instruments issued by \_\_\_\_\_ to raise funds.

- A) commercial banks
- B) the federal government
- C) large corporations
- D) state and city governments

Answer: B

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

23) Which of the following are true statements about T-bills?

- I. T-bills typically sell in denominations of \$10,000.
- II. Income earned on T-bills is exempt from all federal taxes.
- III. Income earned on T-bills is exempt from state and local taxes.

- A) I only
- B) I and II only
- C) I and III only
- D) I, II, and III

Answer: C

Difficulty: 2 Medium

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation



24) A bond that has no collateral is called a \_\_\_\_\_.

- A) callable bond
- B) debenture
- C) junk bond
- D) mortgage

Answer: B

Difficulty: 1 Easy

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

25) A \_\_\_\_\_ gives its holder the right to sell an asset for a specified exercise price on or before a specified expiration date.

- A) call option
- B) futures contract
- C) put option
- D) interest rate swap

Answer: C

Difficulty: 1 Easy

Topic: Derivative Markets

Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

26) A T-bill quote sheet has 90-day T-bill quotes with a 4.92 ask and a 4.86 bid. If the bill has a \$10,000 face value, an investor could sell this bill for \_\_\_\_\_.

- A) \$10,000
- B) \$9,878.50
- C) \$9,877
- D) \$9,880.16

Answer: B

Explanation:  $\$9,878.50 = \$10,000 \times \left[ 1 - \frac{(.0486 \times 90)}{360} \right]$

Difficulty: 3 Hard

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

27) Which one of the following is a true statement regarding corporate bonds?

- A) A corporate callable bond gives its holder the right to exchange it for a specified number of the company's common shares.
- B) A corporate debenture is a secured bond.
- C) A corporate convertible bond gives its holder the right to exchange it for a specified number of the company's common shares.
- D) Holders of corporate bonds have voting rights in the company.

Answer: C

Difficulty: 2 Medium

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 28) The yield on tax-exempt bonds is \_\_\_\_\_.
- A) usually less than 50% of the yield on taxable bonds
  - B) normally about 90% of the yield on taxable bonds
  - C) greater than the yield on taxable bonds
  - D) less than the yield on taxable bonds

Answer: D

Difficulty: 1 Easy

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 29) \_\_\_\_\_ is *not* a money market instrument.
- A) A certificate of deposit
  - B) A Treasury bill
  - C) A Treasury bond
  - D) Commercial paper

Answer: C

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

30) An investor buys a T-bill at a bank discount quote of 4.80 with 150 days to maturity for \$9800. The bill has a face value of \$10,000. The investor's bond equivalent yield on this investment is \_\_\_\_\_.

- A) 4.8%
- B) 4.97%
- C) 5.47%
- D) 5.74%

Answer: B

Explanation:  $\$9,800 = \$10,000 \times \left[ 1 - \frac{(0.0480 \times 150)}{360} \right]$

$$\left[ \frac{\$10,000}{9800} - 1 \right] \times \frac{365}{150} = 4.97$$

Difficulty: 3 Hard

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

31) The U.K. stock index is the \_\_\_\_\_.

- A) DAX
- B) FTSE
- C) GSE
- D) TSE

Answer: B

Difficulty: 1 Easy

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

32) A \_\_\_\_\_ gives its holder the right to buy an asset for a specified exercise price on or before a specified expiration date.

- A) call option
- B) futures contract
- C) put option
- D) interest rate swap

Answer: A

Difficulty: 1 Easy

Topic: Derivative Markets

Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

33) Which one of the following provides the best example of securitization?

- A) convertible bond
- B) call option
- C) mortgage pass-through security
- D) preferred stock

Answer: C

Difficulty: 1 Easy

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

34) Which of the following indexes are market value-weighted?

I. The NYSE Composite

II. The S&P 500

III. The Wilshire 5000

A) I and II only

B) II and III only

C) I and III only

D) I, II, and III

Answer: D

Difficulty: 1 Easy

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

35) The interest rate charged by large banks in London to lend money among themselves is called \_\_\_\_\_.

A) the prime rate

B) the discount rate

C) the federal funds rate

D) LIBOR

Answer: D

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

36) A firm that has large securities holdings and wishes to raise money for a short length of time may be able to find the cheapest financing from which of the following?

- A) reverse repurchase agreement
- B) bankers' acceptance
- C) commercial paper
- D) repurchase agreement

Answer: D

Difficulty: 2 Medium

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

37) Currently, the Dow Jones Industrial Average is computed by \_\_\_\_\_.

- A) adding the prices of 30 large "blue-chip" stocks and dividing by 30
- B) calculating the total market value of the 30 firms in the index and dividing by 30
- C) measuring the current total market value of the 30 stocks in the index relative to the total value on the previous day
- D) adding the prices of 30 large "blue-chip" stocks and dividing by a divisor adjusted for stock splits and large stock dividends

Answer: D

Difficulty: 2 Medium

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

38) An investor purchases one municipal bond and one corporate bond that pay rates of return of 5% and 6.4%, respectively. If the investor is in the 15% tax bracket, his after-tax rates of return on the municipal and corporate bonds would be, respectively, \_\_\_\_\_.

- A) 5% and 6.4%
- B) 5% and 5.44%
- C) 4.25% and 6.4%
- D) 5.75% and 5.44%

Answer: B

Explanation: After-tax return on municipal bond = 0.05 = 5%

After-tax return on corporate bond =  $0.064(1 - 0.15) = 0.0544 = 5.44\%$

Difficulty: 2 Medium

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

39) If a Treasury note has a bid price of \$996.25, the quoted bid price in the *Wall Street Journal* would be \_\_\_\_\_.

- A) 99:5/8
- B) 99:6/10
- C) 99.6250
- D) none of the options

Answer: C

Explanation: Quoted price =  $996.25 \left( \frac{100}{1,000} \right) = 99.625$

Difficulty: 2 Medium

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Apply

Accessibility: Keyboard Navigation



- 40) TIPS are \_\_\_\_\_.
- A) Treasury bonds that pay no interest and are sold at a discount
  - B) U.K. bonds that protect investors from default risk
  - C) securities that trade on the Toronto stock index
  - D) Treasury bonds that protect investors from inflation

Answer: D

Difficulty: 2 Medium

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 41) The price quotations of Treasury bonds in the *Wall Street Journal* show a bid price of 104.5313 and an ask price of 104.5489. If you sell a Treasury bond, you expect to receive \_\_\_\_\_.
- A) \$ 1,000.00
  - B) \$ 1,045.00
  - C) \$ 1,045.31
  - D) \$ 1,045.48

Answer: C

Explanation:  $P = 104.5313\% (1000) = 1,045.31$

Difficulty: 2 Medium

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 42) The Dow Jones Industrial Average is \_\_\_\_\_.
- A) a price-weighted average
  - B) a value weight and average
  - C) an equally weighted average
  - D) an unweighted average

Answer: A

Difficulty: 1 Easy

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

43) Investors will earn higher rates of returns on TIPS than on equivalent default-risk standard bonds if \_\_\_\_\_.

- A) inflation is lower than anticipated over the investment period
- B) inflation is higher than anticipated over the investment period
- C) the U.S. dollar increases in value against the euro
- D) the spread between commercial paper and Treasury securities remains low

Answer: B

Difficulty: 2 Medium

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

44) Preferred stock is like long-term debt in that \_\_\_\_\_.

- A) it gives the holder voting power regarding the firm's management
- B) it promises to pay to its holder a fixed stream of income each year
- C) the preferred dividend is a tax-deductible expense for the firm
- D) in the event of bankruptcy preferred stock has equal status with debt

Answer: B

Difficulty: 2 Medium

Topic: Equity Securities

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

45) Which of the following does *not* approximate the performance of a buy-and-hold portfolio strategy?

- A) an equally weighted index
- B) a price-weighted index
- C) a value-weighted index
- D) all of these options (Weights are not a factor in this situation.)

Answer: A

Difficulty: 2 Medium

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

46) In calculating the Dow Jones Industrial Average, the adjustment for a stock split occurs \_\_\_\_\_.

- A) automatically
- B) by adjusting the divisor
- C) by adjusting the numerator
- D) by adjusting the market value weights

Answer: B

Difficulty: 2 Medium

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

47) A bond issued by the state of Alabama is priced to yield 6.25%. If you are in the 28% tax bracket, this bond would provide you with an equivalent taxable yield of \_\_\_\_\_.

- A) 4.5%
- B) 7.25%
- C) 8.68%
- D) none of these options

Answer: C

Explanation:  $8.68\% = 0.0625 / (1 - 0.28)$

Difficulty: 2 Medium

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

48) The purchase of a futures contract gives the buyer \_\_\_\_\_.

- A) the right to buy an item at a specified price
- B) the right to sell an item at a specified price
- C) the obligation to buy an item at a specified price
- D) the obligation to sell an item at a specified price

Answer: C

Difficulty: 1 Easy

Topic: Derivative Markets

Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

49) Ownership of a put option entitles the owner to the \_\_\_\_\_ to \_\_\_\_\_ a specific stock, on or before a specific date, at a specific price.

- A) right; buy
- B) right; sell
- C) obligation; buy
- D) obligation; sell

Answer: B

Difficulty: 1 Easy

Topic: Derivative Markets

Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

50) An investor in a 28% tax bracket is trying to decide whether to invest in a municipal bond or a corporate bond. She looks up municipal bond yields ( $r_m$ ) but wishes to calculate the taxable equivalent yield  $r$ . The formula she should use is given by \_\_\_\_\_.

- A)  $r = r_m \times (1 - 28\%)$
- B)  $r = r_m / (1 - 72\%)$
- C)  $r = r_m \times (1 - 72\%)$
- D)  $r = r_m / (1 - 28\%)$

Answer: D

Difficulty: 3 Hard

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

51) June call and put options on King Books Inc. are available with exercise prices of \$30, \$35, and \$40. Among the different exercise prices, the call option with the \_\_\_\_\_ exercise price and the put option with the \_\_\_\_\_ exercise price will have the greatest value.

- A) \$40; \$30
- B) \$30; \$40
- C) \$35; \$35
- D) \$40; \$40

Answer: B

Difficulty: 2 Medium

Topic: Derivative Markets

Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

52) Ownership of a call option entitles the owner to the \_\_\_\_\_ to \_\_\_\_\_ a specific stock, on or before a specific date, at a specific price.

- A) right; buy
- B) right; sell
- C) obligation; buy
- D) obligation; sell

Answer: A

Difficulty: 1 Easy

Topic: Derivative Markets

Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

53) The \_\_\_\_\_ the ratio of municipal bond yields to corporate bond yields, the \_\_\_\_\_ the cutoff tax bracket at which more individuals will prefer to hold municipal debt.

- A) higher; lower
- B) lower; lower
- C) higher; higher
- D) The answer cannot be determined without more information.

Answer: A

Difficulty: 3 Hard

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

54) The Hang Seng index reflects market performance on which of the following major stock markets?

- A) Japan
- B) Singapore
- C) Taiwan
- D) Hong Kong

Answer: D

Difficulty: 2 Medium

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

55) The Standard & Poor's 500 is \_\_\_\_\_ weighted index.

- A) an equally
- B) a price-
- C) a value-
- D) a share-

Answer: C

Difficulty: 1 Easy

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

56) Large well-known companies often issue their own short-term unsecured debt notes directly to the public, rather than borrowing from banks; their notes are called \_\_\_\_\_.

- A) certificates of deposit
- B) repurchase agreements
- C) bankers' acceptances
- D) commercial paper

Answer: D

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

57) Which of the following is most like a short-term collateralized loan?

- A) certificate of deposit
- B) repurchase agreement
- C) bankers' acceptance
- D) commercial paper

Answer: B

Difficulty: 2 Medium

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

58) Eurodollars are \_\_\_\_\_.

- A) dollar-denominated deposits at any foreign bank or foreign branch of an American bank
- B) dollar-denominated bonds issued by firms outside their home market
- C) currency issued by Euro Disney and traded in France
- D) dollars that wind up in banks as a result of money-laundering activities

Answer: A

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

59) Which of the following is used to back international sales of goods and services?

- A) certificate of deposit
- B) bankers' acceptance
- C) eurodollar deposits
- D) commercial paper

Answer: B

Difficulty: 2 Medium

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

60) Treasury notes have initial maturities between \_\_\_\_\_ years.

- A) 2 and 4
- B) 5 and 10
- C) 10 and 30
- D) 1 and 10

Answer: D

Difficulty: 1 Easy

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

61) Which of the following is *not* a characteristic of common stock ownership?

- A) residual claimant
- B) unlimited liability
- C) voting rights
- D) right to any dividend paid by the corporation.

Answer: B

Difficulty: 1 Easy

Topic: Equity Securities

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

62) If you thought prices of stock would be rising over the next few months, you might want to \_\_\_\_\_ on the stock.

- A) purchase a call option
- B) purchase a put option
- C) sell a futures contract
- D) place a short-sale order

Answer: A

Difficulty: 2 Medium

Topic: Derivative Markets

Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation



63) A typical bond price quote includes all but which one of the following?

- A) coupon
- B) closing bond price
- C) yield to maturity
- D) dividend yield

Answer: D

Difficulty: 1 Easy

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

64) What would you expect to have happened to the spread between yields on commercial paper and Treasury bills immediately after September 11, 2001?

- A) no change, as both yields will remain the same
- B) increase, as the spread usually increases in response to a crisis
- C) decrease, as the spread usually decreases in response to a crisis
- D) no change, as both yields will move in the same direction

Answer: B

Difficulty: 3 Hard

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

65) A stock quote indicates a stock price of \$60 and a dividend yield of 3%. The latest quarterly dividend received by stock investors must have been \_\_\_\_\_ per share.

- A) \$0.55
- B) \$1.80
- C) \$0.45
- D) \$1.25

Answer: C

Explanation:  $\frac{\$60 \times .30}{4} = \$0.45$

Difficulty: 2 Medium

Topic: Equity Securities

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

66) Three stocks have share prices of \$12, \$75, and \$30 with total market values of \$400 million, \$350 million, and \$150 million, respectively. If you were to construct a price-weighted index of the three stocks, what would be the index value?

- A) 300
- B) 39
- C) 43
- D) 30

Answer: B

Explanation:  $\text{Index} = (12 + 75 + 30)/3 = 39$

Difficulty: 2 Medium

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

67) Which of the following is *not* considered a money market investment?

- A) bankers' acceptance
- B) eurodollar
- C) repurchase agreement
- D) Treasury note

Answer: D

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

68) The rate of interest on short-term loans among financial institutions is \_\_\_\_\_.

- A) bankers' acceptances
- B) brokers' calls
- C) federal funds rate
- D) LIBOR

Answer: C

Difficulty: 1 Easy

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

69) You decide to purchase an equal number of shares of stocks of firms to create a portfolio. If you wanted to construct an index to track your portfolio performance, your best match for your portfolio would be to construct \_\_\_\_\_.

- A) a value-weighted index
- B) an equally weighted index
- C) a price-weighted index
- D) a bond price index

Answer: C

Difficulty: 3 Hard

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

70) In a \_\_\_\_\_ index, changes in the value of the stock with the greatest market value will move the index value the most, everything else equal.

- A) value-weighted index
- B) equally weighted index
- C) price-weighted index
- D) bond price index

Answer: A

Difficulty: 2 Medium

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

71) A corporation in a 34% tax bracket invests in the preferred stock of another company and earns a 6% pretax rate of return. An individual investor in a 15% tax bracket invests in the same preferred stock and earns the same pretax return. The after-tax return to the corporation is \_\_\_\_\_, and the after-tax return to the individual investor is \_\_\_\_\_.

- A) 3.96%; 5.1%
- B) 5.39%; 5.1%
- C) 6%; 6%
- D) 3.96%; 6%

Answer: B

Explanation: After-tax return to corporate investor after 70% exclusion =  $.06 - (.06 \times .30) \times .34 = 5.39\%$

After-tax return to individual investor =  $.06(1 - .15) = 5.1\%$

Difficulty: 3 Hard

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

72) All but which one of the following indices is value weighted?

- A) NASDAQ Composite
- B) S&P 500
- C) Wilshire 5000
- D) DJIA

Answer: D

Difficulty: 1 Easy

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

73) What is the tax exempt equivalent yield on a 9% bond yield given a marginal tax rate of 28%?

- A) 6.48%
- B) 7.25%
- C) 8.02%
- D) 9%

Answer: A

Explanation: After-tax yield =  $0.09(1 - 0.28) = 0.0648 = 6.48\%$

Difficulty: 2 Medium

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

74) A tax free municipal bond provides a yield of 3.2%. What is the equivalent taxable yield on the bond given a 35% tax bracket?

- A) 3.2%
- B) 3.68%
- C) 4.92%
- D) 5%

Answer: C

Explanation: Yield =  $\frac{.032}{1 - .35} = 0.0492$

Difficulty: 2 Medium

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

75) An index computed from a simple average of returns is a/an \_\_\_\_\_.

- A) equal weighted index
- B) value weighted index
- C) price weighted index
- D) share weighted index

Answer: A

Difficulty: 2 Medium

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

76) A tax free municipal bond provides a yield of 2.34%. What is the equivalent taxable yield on the bond given a 28% tax bracket?

- A) 2.34%
- B) 2.68%
- C) 3.25%
- D) 4.92%

Answer: C

Explanation:  $\text{Yield} = \frac{.0234}{1 - .28} = 0.0325$

Difficulty: 2 Medium

Topic: The Bond Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

77) The Hydro Index is a price weighted stock index based on the 5 largest boat manufacturers in the nation. The stock prices for the five stocks are \$10, \$20, \$80, \$50 and \$40. The price of the last stock was just split 2 for 1 and the stock price was halved from \$40 to \$20. What is the new divisor for a price weighted index?

- A) 5.00
- B) 4.85
- C) 4.50
- D) 4.75

Answer: C

Explanation:  $\text{Index}_0 = \frac{\$10 + \$20 + \$80 + \$50 + \$40}{5} = 40$

$\text{Index}_1 = \frac{\$10 + \$20 + \$80 + \$50 + \$20}{X} = 40; X = 4.50$

Difficulty: 3 Hard

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

78) A benchmark index has three stocks priced at \$23, \$43, and \$56. The number of outstanding shares for each is 350,000 shares, 405,000 shares, and 553,000 shares, respectively. If the market value weighted index was 970 yesterday and the prices changed to \$23, \$41, and \$58 today, what is the new index value?

- A) 960
- B) 970
- C) 975
- D) 985

Answer: C

Explanation: 
$$\text{Index} = \frac{\$23 \times 350000 + \$41 \times 405000 + \$58 \times 553000}{\$23 \times 350000 + \$43 \times 405000 + \$56 \times 553000} \times 970 = 975$$

Difficulty: 3 Hard

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

79) A benchmark market value index is comprised of three stocks. Yesterday the three stocks were priced at \$12, \$20, and \$60. The number of outstanding shares for each is 600,000 shares, 500,000 shares, and 200,000 shares, respectively. If the stock prices changed to \$16, \$18, and \$62 today respectively, what is the 1-day rate of return on the index?

- A) 5.78%
- B) 4.35%
- C) 6.16%
- D) 7.42%

Answer: C

Explanation: 
$$\text{Index Return} = \frac{\$16 \times 600000 + \$18 \times 500000 + \$62 \times 200000}{\$12 \times 600000 + \$20 \times 500000 + \$60 \times 200000} - 1 = .164\%$$

Difficulty: 3 Hard

Topic: Stock and Bond Market Indexes

Learning Objective: 02-02 Describe the construction of stock market indexes.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation



80) Which of the following mortgage scenarios will benefit the homeowner the most?

- A) adjustable rate mortgage when interest rate increases.
- B) fixed rate mortgage when interest rates falls.
- C) fixed rate mortgage when interest rate rises.
- D) None of these options, as the banker's interest will always be protected.

Answer: C

Difficulty: 2 Medium

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

81) The brokers' call rate represents

- A) the rate the broker charges an investor on a margin account.
- B) the rate the broker pays its bank on borrowed funds.
- C) the return earned by the broker on a margin account.
- D) the return earned by the investor on a margin account.

Answer: B

Difficulty: 2 Medium

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

82) LIBOR is a key reference rate in the money markets. Many \_\_\_\_\_ of dollars of loans and derivative assets are tied to it.

- A) thousands
- B) millions
- C) billions
- D) trillions

Answer: D

Difficulty: 2 Medium

Topic: The Money Market

Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

83) Several large banks manipulated the reported rates on which key money market rate?

- A) federal funds rate
- B) LIBOR
- C) bankers' acceptances
- D) brokers' calls rate

*Answer:* B

*Difficulty:* 2 Medium

*Topic:* The Money Market

*Learning Objective:* 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

*Bloom's:* Remember

*AACSB:* Analytical Thinking

*Accessibility:* Keyboard Navigation

84) Which of the following reforms were not included in 2014 regulations regarding money market funds?

- A) Institutional funds will "float" the prices of their shares.
- B) Funds can limit redemptions or impose a 2% fee if assets fall by more than 30%.
- C) increased disclosure of assets' values and liquidity
- D) All of the options were included.

*Answer:* D

*Difficulty:* 2 Medium

*Topic:* The Money Market

*Learning Objective:* 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

*Bloom's:* Remember

*AACSB:* Analytical Thinking

*Accessibility:* Keyboard Navigation

85) What would be the profit or loss per share of stock to an investor who bought an October expiration Apple call option with an exercise price of \$130 if Apple closed on the expiration date at \$120? Assume the option premium was \$3.00.

- A) \$0
- B) \$3.00 gain
- C) \$3.00 loss
- D) \$7.00 gain

*Answer:* C

*Difficulty:* 2 Medium

*Topic:* Derivative Markets

*Learning Objective:* 02-01 Distinguish among the major assets that trade in money markets and in capital markets.

*Bloom's:* Apply

*AACSB:* Analytical Thinking

*Accessibility:* Keyboard Navigation