



Business Administration Department

Course: Financial markets and institutions  
Third year

---

1. Financial market participants who provide funds are called
  - a) deficit units.
  - b) surplus units.
  - c) primary units.
  - d) secondary units.
  
2. Those financial markets that facilitate the flow of short-term funds are known as
  - A. money markets.
  - B. capital markets.
  - C. primary markets.
  - D. secondary markets.
  
3. Funds are provided to the initial issuer of securities in the.....
  - A. secondary market.
  - B. primary market.
  - C. deficit market.
  - D. surplus market.
  
4. Equity securities have a----- expected return than most long-term debt securities, and they exhibit a ----- degree of risk.
  - A. higher; higher
  - B. lower; lower
  - C. lower; higher
  - D. higher; lower
  
5. Money market securities generally have----- Capital market securities are typically expected to have a .
  - A. less liquidity; higher annualized return
  - B. more liquidity; lower annualized return
  - C. less liquidity; lower annualized return
  - D. more liquidity; higher annualized return

6. If security prices fully reflect all available information, the markets for these securities are
- A. efficient.
  - B. primary.
  - C. overvalued.
  - D. undervalued.
7. Financial markets were -----, all information about any securities for sale in primary and secondary markets would be continuously and freely available to investors.
- A. efficient
  - B. inefficient
  - C. perfect
  - D. imperfect
8. Which of the following is a non-depository financial institution?
- A. savings banks
  - B. commercial banks
  - C. savings and loan associations
  - D. mutual funds
9. Those participants who receive more money than they spend are referred to as.....
- A. deficit units.
  - B. surplus units.
  - C. borrowing units.
  - D. government units

10. The main reason that depository institutions experienced financial problems during the credit crisis was their investment in:
- A. mortgages.
  - B. money market securities.
  - C. stock.
  - D. Treasury bonds.
11. The price of a bond when calculated below its par value is classified as
- A. classified bond
  - B. discount bond
  - C. compound bond
  - D. consideration earning
12. A coupon bond pays the owner of the bond
- A. the same amount every month until maturity date.
  - B. a fixed interest payment every period and repays the face value at the maturity date.
  - C. the face value of the bond plus an interest payment once the maturity date has been reached.
  - D. the face value at the maturity date.
13. The value of any bond should be:
- A. the sum total of all the coupon receipts as well as the principal repayment at the bond's maturity.
  - B. the present value of all the coupon receipts as well as the principal repayment at the bond's maturity.
  - C. the future value of all the coupon receipts as well as the principal repayment at the bond's maturity.
  - D. none of the above.
14. All else constant, a bond will sell at \_\_\_\_\_ when the coupon rate is \_\_\_\_\_ the yield to maturity.
- A. a premium; less than
  - B. a premium; equal to
  - C. a discount; less than
  - D. a discount; higher than
  - E. par; less than
15. Which of the following relationships apply to a par value bond?
- I. coupon rate < yield-to-maturity

II. current yield = yield-to-maturity

III. market price = call price

IV. market price = face value

A. I and II only

B. I and III only

C. II and IV only

D. I, II, and III only

E. II, III, and IV only

16. A stock is expected to pay a dividend of \$3.00 in one year. To purchase the stock, investors seek a 15% annual return. If the stock is currently trading at \$60, what is the implied constant growth rate of dividends for the future?

A. 5%

B. 10%

C. 15%

D. 20%

17. No matter how large the number of stocks in the portfolio is, the risk that cannot be diversified away is the:

A. company-specific risk

B. unsystematic risk

C. systematic risk

D. unique risk

E. both a and b

18. The market portfolio has a beta of:

a) 1.0

b) 0.0

c) 2.0

d) -1.0

19. According to the capital asset pricing model, beta is a measure of:

A) systematic risk

b) inflation risk

C) standard deviation of returns

D) unsystematic risk

20. Suppose two portfolios have the same average return, the same standard deviation of returns, but portfolio X has a higher beta than portfolio Y. According to the Sharpe

- measure, the performance of portfolio X
- A. is the same as the performance of portfolio Y
  - B. is better than the performance of portfolio Y
  - C. is poorer than the performance of portfolio Y
  - D. cannot be measured as there is no data on the alpha of the portfolio
  - E. none of the above is true.
21. Suppose two portfolios have the same average return, the same standard deviation of returns, but portfolio A has a higher beta than portfolio B. According to the Treynor measure, the performance of portfolio A \_\_\_\_\_.
- A. is better than the performance of portfolio B
  - B. is the same as the performance of portfolio B
  - C. is poorer than the performance of portfolio B
  - D. cannot be measured as there is no data on the alpha of the portfolio
  - E. None of these is correct.
22. The difference between the return on the market portfolio and the risk-free rate is known as the:
- A. total return.
  - B. systematic premium.
  - C. unsystematic return.
  - D. market risk premium.
23. The intercept of the security market line is:
- A.  $E(R_m) - R_f$
  - B.  $1/(E(R_m) - R_f)$
  - C.  $R_f - E(R_m)$
  - D.  $R_f$
24. The formula for the Capital Asset Pricing Model is:
- A.  $E(R_i) = R_f + i(E(R_m) - R_f)$
  - B.  $E(R_i) = R_f + iE(R_m)$
  - C.  $E(R_i) = i(E(R_m) - R_f)$
  - D.  $E(R_i) + R_f = i(E(R_m) - R_f)$
25. Security I has a beta of 1.3, the risk-free rate is 4%, and the expected return on the market is 11%. What is the expected return for Security I?

- A. 15.0%
- B. 18.3%
- C. 14.6%
- D. 13.1%

26. In the context of the Capital Asset Pricing Model (CAPM) the relevant risk is

- A. unique risk.
- B. market risk
- C. standard deviation of returns.
- D. variance of returns.

27. According to the CAPM, the risk premium an investor expects to receive on any stock or portfolio increases:

- A. inversely with alpha.
- B. directly with beta.
- C. inversely with beta.
- D. in proportion to its standard deviation

28. Standard deviation and beta both measure risk, but they are different in that :

- A. beta measures both systematic and unsystematic risk.
- B. beta measures only systematic risk while standard deviation is a measure of total risk.
- C. beta measures only unsystematic risk while standard deviation is a measure of total risk.
- D. beta measures both systematic and unsystematic risk while standard deviation measures only systematic risk.
- E. beta measures total risk while standard deviation measures only nonsystematic risk.

29. What is the expected return of a zero-beta security?

- A. The market rate of return.
- B. Zero rate of return.
- C. A negative rate of return.
- D. The risk-free rate.

30. Find the current dividend for a stock given that the stock price is \$128.53 the growth rate in dividends is 5.8% per year, and the required return is 8.5%.

- a. \$1.58
- b. \$2.04
- c. \$2.71
- d. \$3.28

31. Find the price of a semiannual coupon bond given that the coupon rate = 10%, the face value = \$1000, the required return = 16%, and there are 5 years remaining until maturity.  
 a. \$789.87      b. \$794.52      c. \$798.7      d. \$804.16
32. Find the Standard Deviation for a portfolio formed with Stocks 1 and 2. The Expected Return for Stock 1 is 6%, the Standard Deviation for Stock 1 is 8%, the Expected Return for Stock 2 is 9%, the Standard Deviation for Stock 2 is 8%, the Weight of Stock 1 in the portfolio is 70%, and the Correlation Coefficient between the returns on Stocks 1 and 2 is 0.14.  
 a) 0.14      b) 6.39    c) 6.9    d) 4.09
33. Financial managers are primarily concerned with  
 a) costs decisions    b) profits decisions    c) risky decisions    d) investment decisions
34. Investors who completely ignore an asset's variance and only consider the asset's expected return are called:  
 a) risk seekers.    b) risk averters.    c) risk-neutral investors.    d) value-seeking investors.
- 35) \_\_\_\_\_ are financial contracts whose values are obtained from the values of underlying assets.  
 a. Bonds      b. Mortgages      c. Stocks      d. Derivatives
- 36) \_\_\_\_\_ are depository financial institutions.  
 a. Savings banks      b. Finance companies  
 c. Mutual funds      d. Securities firms
- 37) In aggregate, \_\_\_\_\_ are the most dominant depository institution.  
 a. credit unions      b. savings banks  
 c. savings and loan associations      d. commercial banks
- 38) Which of the following is NOT a depository financial institution?  
 a. A savings and loan association.    b. A credit union.  
 c. A mutual fund company.    d. A commercial bank.
- 39) Financial markets have the basic function of  
 a. bringing together people with funds to lend and people who want to borrow funds.  
 b. assuring that the swings in the business cycle are less pronounced.  
 c. assuring that governments need never resort to printing money.  
 d. both A and B of the above.
- 40) ----- called thrift.  
 a. Credit Unions    b. Savings Institutions    c. Mutual funds    d. Insurance companies
- 41) Which of the following is NOT an example of capital market securities?  
 a. common stocks    b. bonds    c. commercial paper    d. mortgages

42) A bond that has only one payment, which occurs at maturity, defines which one of the following?

- a. debenture      b. callable      c. floating-rate      d. zero coupon

43) Longer-term bond prices are more sensitive to changes in interest rates than are short-term bond prices.

- a. True      b. False

44) All else constant, a bond will sell at \_\_\_\_\_ when the coupon rate is \_\_\_\_\_ the yield to maturity.

- a. a premium; less than      b. a premium; equal to  
c. a discount; less than      d. a discount; higher than

45) Broker

- a. a visible marketplace for secondary market transactions  
b. a person or institution executing securities transactions between two parties  
c. a person making a market in specific securities by adjusting his inventory of securities  
d. the degree to which securities can easily be sold without a loss of value

46) Dealer

- a. a visible marketplace for secondary market transactions  
b. a person or institution executing securities transactions between two parties  
c. a person making a market in specific securities by adjusting his inventory of securities  
d. the degree to which securities can easily be sold without a loss of value

47) Stanford Corporation arranged a repurchase agreement in which it purchased securities for \$4,900,000 and will sell the securities back for \$5,000,000 in 40 days. What is the yield (or repo rate) to Stanford Corporation?

- a. 18.37%      b. 2.04%      c. 22.67%      d. 3.92%

48) Assume the following information for an existing bond that provides annual coupon payments: Par value = \$1,000, Coupon rate = 11%, Maturity = 4 years, and Required rate of return by investors = 11%. What is the present value of the bond?

- a. 11000      b. 44000      c. 275      d. 1000

50) Which is TRUE concerning preferred stock?

- a. Preferred stock is considered debt on the company balance sheet.  
b. Preferred stock holders have voting rights for the company board of directors.  
c. Preferred stock payments are variable like common stock.



d. Preferred stock is viewed as less risky than a firm's common stock.

51) Which is NOT a feature of common stock?

- a. Voting rights
- b. Priority over debt holders for liquidation rights
- c. Rights to dividends and other distributions
- d. Majority voting system

52) A share of common stock currently sells for \$110. Current dividends are \$8 per share, and are expected to grow at 6 percent per year indefinitely. What is the rate of return required by investors in the stock?

ANSWER:

$$D_1 = D_0 (1 + g)$$

$$D_1 = \$8.00 (1 + 0.06) = \$8.48$$

$$k = (D_1/PV \text{ of stock}) + g$$

$$k = (8.48/110) + 0.06 = 0.137 = 13.7\%$$

53) Suppose you bought a stock at the beginning of the year for \$76.50. During the year, the stock paid a dividend of \$0.70 per share and had an ending share price of \$99.25. What is the total percentage return from investing in that stock over the year?

ANSWER:

$$R = (SP - INV + D)/INV$$

$$R = (99.25 - 76.5 + 0.70)/76.5 = 0.306 = 30.6\%$$

54) ) Which of the following relationships apply to a par value bond?

- I. coupon rate < yield-to-maturity
  - II. current yield = yield-to-maturity
  - III. market price = call price
  - IV. market price = face value
- A. I and II only
  - B. I and III only
  - C. II and IV only
  - D. I, II, and III only
  - E. II, III, and IV only

55) Green Roof Inns is preparing a bond offering with a 6 percent, semiannual coupon and a face value of \$1,000. The bonds will be repaid in 10 years and will be sold at par. Given this, which one of the following statements is correct?

- A. The bonds will become discount bonds if the market rate of interest declines.
- B. The bonds will pay 10 interest payments of \$60 each.

- C. The bonds will sell at a premium if the market rate is 5.5 percent.
- D. The bonds will initially sell for \$1,030 each.
- E. The final payment will be in the amount of \$1,060.

56) Which of the following increase the price sensitivity of a bond to changes in interest rates?

- I. increase in time to maturity
  - II. decrease in time to maturity
  - III. increase in coupon rate
  - IV. decrease in coupon rate
- A. II only
  - B. I and III only
  - C. I and IV only
  - D. II and III only
  - E. II and IV only

57) Longer-term bond prices are more sensitive to changes in interest rates than are short-term bond prices.

- A) True    B)    False

59) You paid \$98,000 for a \$100,000 T-bill maturing in 120 days. If you hold it until maturity, what is the T-bill yield? What is the T-bill discount?

$$\text{T-bill yield } Y_T = (SP - PP/PP)(365 / n)$$

$$Y_T = [(100,000 - 98,000)/(98,000)] \times (365/120) = 6.2\%$$

$$\text{T-bill discount} = (\text{Par} - PP/\text{Par})(360 / n)$$

$$\text{T-bill discount} = (100,000 - 98,000)/100,000 \times (360/120)$$

$$\text{T-bill discount} = 0.06 = 6\%.$$

60) In general, money market securities have a higher degree of \_\_\_\_\_ than capital market securities.

- a. Liquidity    b. risk    c. return    d. dealers