

Chapter 02 - Testbank

Student: _____

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

A.
B.
C.
D.
2. Treasury notes are offered for sale generally on a _____ basis.

A.
B.
C.
D.
3. When setting the interest rate on loans, the commonly used measure is the _____-day bank bond rate.

A.
B.
C.
D.
4. A dollar-denominated deposit at a London bank is called _____.

A.
B.
C.
D.
5. Money market securities are sometimes referred to as 'cash equivalent' because _____.

A.
B.
C.
D.

6. The most actively traded money market security is
- A.
 - B.
 - C.
 - D.
7. _____ voting of common share gives minority shareholders the most representation on the board of directors.
- A.
 - B.
 - C.
 - D.
8. An investor in a T-note earns interest by _____.
- A.
 - B.
 - C.
 - D.
9. _____ is considered to be an emerging market country.
- A.
 - B.
 - C.
 - D.
10. Which one of the following is a true statement?
- A.
 - B.
 - C.
 - D.

11. Which of the following mortgage scenarios will benefit the homeowner the most?
- A.
 - B.
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12. A transaction where a dealer agrees to sell and subsequently repurchase a security from another deal is called _____.
- A.
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 - D.
13. Which of the following is not a characteristic of a money market instrument?
- A.
 - B.
 - C.
 - D.
14. An individual who goes short in a futures position _____.
- A.
 - B.
 - C.
 - D.
15. Commercial paper is a short-term security issued by _____ to raise funds.
- A.
 - B.
 - C.
 - D.

16. The maximum maturity of certificate of deposits is
- A.
 - B.
 - C.
 - D.
17. Which one of the following is a true description of the Dow Jones Industrial Average?
- A.
 - B.
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18. Treasury notes are financial instruments issued by _____ to raise funds.
- A.
 - B.
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 - D.
19. Which of the following are true statements about T-notes?
- I. T-notes are typically issued in denominations of \$1 000 000
 - II. Income earned on T-notes is exempt from all taxes
 - III. T-notes are issued at a discount
- A.
 - B.
 - C.
 - D.
20. A bond that has no collateral is called _____.
- A.
 - B.
 - C.
 - D.

21. A _____ gives its holder the right to sell an asset for a specified exercise price on or before a specified expiration date.

- A.
- B.
- C.
- D.

22. Which one of the following is a true statement regarding corporate bonds?

- A.
- B.
- C.
- D.

23. The yield on tax-exempt bonds is _____.

- A.
- B.
- C.
- D.

24. _____ is not a money market instrument.

- A.
- B.
- C.
- D.

25. The major share index of Australian market is the _____.

- A.
- B.
- C.
- D.

26. A _____ gives its holder the right to buy an asset for a specified exercise price on or before a specified expiration date.
- A.
B.
C.
D.
27. Which one of the following provides the best example of securitisation?
- A.
B.
C.
D.
28. The interest rate charged by large banks in London to lend money among themselves is called _____.
- A.
B.
C.
D.
29. A firm that has large securities holdings that wishes to raise money for a short length of time may be able to find the cheapest financing from which of the following?
- A.
B.
C.
D.
30. The Dow Jones Industrial Average is _____.
- A.
B.
C.
D.

31. TIPS are treasury bonds that protect investors from inflation. Investors will earn higher rates of returns on TIPS than equivalent default risk standard bonds if _____.
- A.
 - B.
 - C.
 - D.
32. Preferred share is like long-term debt in that _____.
- A.
 - B.
 - C.
 - D.
33. Which of the following does not approximate the performance of a buy and hold portfolio strategy?
- A.
 - B.
 - C.
 - D.
34. The purchase of a futures contract gives the buyer _____.
- A.
 - B.
 - C.
 - D.
35. Ownership of a put option entitles the owner to the _____ to _____ a specific share, on or before a specific date, at a specific price.
- A.
 - B.
 - C.
 - D.

36. 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.
B.
C.
D.
37. Ownership of a call option entitles the owner to the _____ to _____ a specific share, on or before a specific date, at a specific price.
- A.
B.
C.
D.
38. Which of the following types of bonds are excluded from most bond indices?
- A.
B.
C.
D.
39. The Hang Seng index reflects market performance on which of the following major share markets?
- A.
B.
C.
D.
40. Preferred share can be callable by the issuing firm, in which case it is said to be _____.
- A.
B.
C.
D.

41. 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.
B.
C.
D.
42. Which of the following is most like a short-term collateralised loan?
- A.
B.
C.
D.
43. Eurodollars are _____.
- A.
B.
C.
D.
44. Which of the following provides an important source of funding for the Australian Commonwealth Government?
- A.
B.
C.
D.
45. Treasury notes have initial maturities between _____ weeks.
- A.
B.
C.
D.

46. Which of the following are not characteristic of common share ownership?
- A.
 - B.
 - C.
 - D.
47. If you thought prices of share would be rising over the next few months you may wish to _____ on the share.
- A.
 - B.
 - C.
 - D.
48. A typical bond price quote includes all but which one of the following?
- A.
 - B.
 - C.
 - D.
49. What are business firms most likely to use derivative securities for?
- A.
 - B.
 - C.
 - D.
50. What would you expect to have happened to the spread between yields on commercial paper and Treasury notes immediately after September 11, 2001?
- A.
 - B.
 - C.
 - D.

51. Which of the following is not considered a money market investment?
- A.
 - B.
 - C.
 - D.
52. The Reserve Bank of Australia (RBA) directly controls which of the following interest rates?
- A.
 - B.
 - C.
 - D.
53. You decide to purchase an equal number of shares of firms to create a portfolio. If you wished to construct an index to track your portfolio performance your best match for your portfolio would be to construct a/an _____.
- A.
 - B.
 - C.
 - D.
54. In a _____ index changes in the value of the share with the greatest market value will move the index value the most everything else equal.
- A.
 - B.
 - C.
 - D.
55. What is the tax exempt equivalent yield on a 9% bond yield given a marginal tax rate of 28%?
- A.
 - B.
 - C.
 - D.

56. 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.
B.
C.
D.
57. An investor purchases one corporate bond that pay rates of return of 6.40%. If the investor is in the 15% tax bracket, his after tax rates of return on the corporate bond would be
- A.
B.
C.
D.
58. A tax-exempt bond 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.
B.
C.
D.
59. A share quote indicates a share price of \$60 and a dividend yield of 3%. The latest quarterly dividend received by share investors must have been _____ per share.
- A.
B.
C.
D.

Chapter 02 - Testbank Key

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

- A.
- B.
- C.**
- D.

Bodie - Chapter 02 #1

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

2. Treasury notes are offered for sale generally on a _____ basis.

- A.
- B.**
- C.
- D.

Bodie - Chapter 02 #2

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

3. When setting the interest rate on loans, the commonly used measure is the _____-day bank bond rate.

- A.
- B.**
- C.
- D.

Bodie - Chapter 02 #3

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

4. A dollar-denominated deposit at a London bank is called _____.

- A.
- B.
- C.
- D.

Bodie - Chapter 02 #4

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.2 List and describe the different types of bonds available.

Section: 2.2 The bond market

5. Money market securities are sometimes referred to as 'cash equivalent' because _____.

- A.
- B.
- C.
- D.

Bodie - Chapter 02 #5

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

6. The most actively traded money market security is

- A.
- B.
- C.
- D.

Bodie - Chapter 02 #6

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

7. _____ voting of common share gives minority shareholders the most representation on the board of directors.

- A.
- B.
- C.
- D.

Bodie - Chapter 02 #7

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.4 Explain two important characteristics of ordinary shares.

Section: 2.3 Equity markets

8. An investor in a T-note earns interest by _____.

- A.
- B.
- C.
- D.**

Bodie - Chapter 02 #8

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

9. _____ is considered to be an emerging market country.

- A.
- B.
- C.**
- D.

Bodie - Chapter 02 #9

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.5 Interpret and explain basic share data.

Section: 2.3 Equity markets

10. Which one of the following is a true statement?

- A.
- B.**
- C.
- D.

Bodie - Chapter 02 #10

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.5 Interpret and explain basic share data.

Section: 2.3 Equity markets

11. Which of the following mortgage scenarios will benefit the homeowner the most?

- A.
- B.
- C.**
- D.

Bodie - Chapter 02 #11

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

12. A transaction where a dealer agrees to sell and subsequently repurchase a security from another deal is called _____.

- A.
- B.**
- C.
- D.

Bodie - Chapter 02 #12

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

13. Which of the following is not a characteristic of a money market instrument?

- A.
- B.
- C.
- D.**

Bodie - Chapter 02 #13

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

14. An individual who goes short in a futures position _____.

- A.**
- B.
- C.
- D.

Bodie - Chapter 02 #14

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.6 List and describe some of the various derivative instruments available.

Section: 2.3 Equity markets

15. Commercial paper is a short-term security issued by _____ to raise funds.

- A.
- B.
- C.**
- D.

Bodie - Chapter 02 #15

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

16. The maximum maturity of certificate of deposits is
- A.**
 - B.
 - C.
 - D.

Bodie - Chapter 02 #16

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

17. Which one of the following is a true description of the Dow Jones Industrial Average?
- A.
 - B.**
 - C.
 - D.

Bodie - Chapter 02 #17

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.5 Interpret and explain basic share data.

Section: 2.3 Equity markets

18. Treasury notes are financial instruments issued by _____ to raise funds.
- A.
 - B.**
 - C.
 - D.

Bodie - Chapter 02 #18

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

19. Which of the following are true statements about T-notes?
- I. T-notes are typically issued in denominations of \$1 000 000
 - II. Income earned on T-notes is exempt from all taxes
 - III. T-notes are issued at a discount

A.
B.
C.
D.

Bodie - Chapter 02 #19

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

20. A bond that has no collateral is called _____.

A.
B.
C.
D.

Bodie - Chapter 02 #20

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.2 List and describe the different types of bonds available.

Section: 2.2 The bond market

21. A _____ gives its holder the right to sell an asset for a specified exercise price on or before a specified expiration date.

A.
B.
C.
D.

Bodie - Chapter 02 #21

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.7 Interpret and explain option data.

Section: 2.3 Equity markets

22. Which one of the following is a true statement regarding corporate bonds?

- A.
- B.
- C.**
- D.

Bodie - Chapter 02 #22

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.2 List and describe the different types of bonds available.

Section: 2.2 The bond market

23. The yield on tax-exempt bonds is _____.

- A.
- B.
- C.
- D.**

Bodie - Chapter 02 #23

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.2 List and describe the different types of bonds available.

Section: 2.2 The bond market

24. _____ is not a money market instrument.

- A.
- B.
- C.**
- D.

Bodie - Chapter 02 #24

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.2 List and describe the different types of bonds available.

Section: 2.2 The bond market

25. The major share index of Australian market is the _____.

- A.**
- B.
- C.
- D.

Bodie - Chapter 02 #25

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.5 Interpret and explain basic share data.

Section: 2.3 Equity markets

26. A _____ gives its holder the right to buy an asset for a specified exercise price on or before a specified expiration date.

- A.
- B.
- C.
- D.

Bodie - Chapter 02 #26

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.7 Interpret and explain option data.

Section: 2.3 Equity markets

27. Which one of the following provides the best example of securitisation?

- A.
- B.
- C.
- D.

Bodie - Chapter 02 #27

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.2 List and describe the different types of bonds available.

Section: 2.2 The bond market

28. The interest rate charged by large banks in London to lend money among themselves is called _____.

- A.
- B.
- C.
- D.

Bodie - Chapter 02 #28

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

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

- A.
- B.
- C.
- D.**

Bodie - Chapter 02 #29

Difficulty: Hard

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

30. The Dow Jones Industrial Average is _____.

- A.**
- B.
- C.
- D.

Bodie - Chapter 02 #30

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.5 Interpret and explain basic share data.

Section: 2.3 Equity markets

31. TIPS are treasury bonds that protect investors from inflation. Investors will earn higher rates of returns on TIPS than equivalent default risk standard bonds if _____.

- A.
- B.**
- C.
- D.

Bodie - Chapter 02 #31

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.2 List and describe the different types of bonds available.

Section: 2.2 The bond market

32. Preferred share is like long-term debt in that _____.

- A.
- B.**
- C.
- D.

Bodie - Chapter 02 #32

33. Which of the following does not approximate the performance of a buy and hold portfolio strategy?

- A.
- B.
- C.**
- D.

34. The purchase of a futures contract gives the buyer _____.

- A.
- B.
- C.**
- D.

35. Ownership of a put option entitles the owner to the _____ to _____ a specific share, on or before a specific date, at a specific price.

- A.
- B.**
- C.
- D.

36. 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.
- B.**
- C.
- D.

Bodie - Chapter 02 #36

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.7 Interpret and explain option data.

Section: 2.3 Equity markets

37. Ownership of a call option entitles the owner to the _____ to _____ a specific share, on or before a specific date, at a specific price.

- A.**
- B.
- C.
- D.

Bodie - Chapter 02 #37

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.7 Interpret and explain option data.

Section: 2.3 Equity markets

38. Which of the following types of bonds are excluded from most bond indices?

- A.
- B.**
- C.
- D.

Bodie - Chapter 02 #38

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.2 List and describe the different types of bonds available.

Section: 2.2 The bond market

39. The Hang Seng index reflects market performance on which of the following major share markets?

- A.
- B.
- C.
- D.**

Bodie - Chapter 02 #39

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.5 Interpret and explain basic share data.

Section: 2.3 Equity markets

40. Preferred share can be callable by the issuing firm, in which case it is said to be _____.

- A.
- B.**
- C.
- D.

Bodie - Chapter 02 #40

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.5 Interpret and explain basic share data.

Section: 2.3 Equity markets

41. 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.
- B.
- C.
- D.**

Bodie - Chapter 02 #41

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

42. Which of the following is most like a short-term collateralised loan?

- A.
- B.**
- C.
- D.

Bodie - Chapter 02 #42

Difficulty: Medium

43. Eurodollars are _____.

- A.
- B.
- C.
- D.

Bodie - Chapter 02 #43
Difficulty: Easy
Gradable: automatic

Learning Objective: 2.2 List and describe the different types of bonds available.
Section: 2.2 The bond market

44. Which of the following provides an important source of funding for the Australian Commonwealth Government?

- A.
- B.
- C.
- D.

Bodie - Chapter 02 #44
Difficulty: Medium
Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

45. Treasury notes have initial maturities between _____ weeks.

- A.
- B.
- C.
- D.

Bodie - Chapter 02 #45
Difficulty: Easy
Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

46. Which of the following are not characteristic of common share ownership?

- A.
- B.
- C.
- D.

Bodie - Chapter 02 #46

Difficulty: Easy
Gradable: automatic

Learning Objective: 2.3 Describe and contrast the different types of equity.
Section: 2.3 Equity markets

47. If you thought prices of share would be rising over the next few months you may wish to _____ on the share.

- A.
- B.
- C.
- D.

Bodie - Chapter 02 #47

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.7 Interpret and explain option data.

Section: 2.3 Equity markets

48. A typical bond price quote includes all but which one of the following?

- A.
- B.
- C.
- D.

Bodie - Chapter 02 #48

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.2 List and describe the different types of bonds available.

Section: 2.2 The bond market

49. What are business firms most likely to use derivative securities for?

- A.
- B.
- C.
- D.

Bodie - Chapter 02 #49

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.6 List and describe some of the various derivative instruments available.

Section: 2.3 Equity markets

50. What would you expect to have happened to the spread between yields on commercial paper and Treasury notes immediately after September 11, 2001?

- A.
- B.**
- C.
- D.

Bodie - Chapter 02 #50

Difficulty: Hard

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

51. Which of the following is not considered a money market investment?

- A.
- B.
- C.
- D.**

Bodie - Chapter 02 #51

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

52. The Reserve Bank of Australia (RBA) directly controls which of the following interest rates?

- A.
- B.
- C.**
- D.

Bodie - Chapter 02 #52

Difficulty: Easy

Gradable: automatic

Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

53. You decide to purchase an equal number of shares of firms to create a portfolio. If you wished to construct an index to track your portfolio performance your best match for your portfolio would be to construct a/an _____.

- A.
- B.
- C.**
- D.

Bodie - Chapter 02 #53

Difficulty: Hard

Gradable: automatic

Learning Objective: 2.5 Interpret and explain basic share data.

Section: 2.3 Equity markets

54. In a _____ index changes in the value of the share with the greatest market value will move the index value the most everything else equal.

- A.**
- B.
- C.
- D.

Bodie - Chapter 02 #54

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.5 Interpret and explain basic share data.

Section: 2.3 Equity markets

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

- A.**
- B.
- C.
- D.

$$\text{after tax yield} = 0.09(1 - 0.28) = 0.0648$$

Bodie - Chapter 02 #55

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.2 List and describe the different types of bonds available.

Section: 2.2 The bond market

56. 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.
- B.
- C.**
- D.

$$\text{Yield} = 0.032 / (1 - 0.35) = 0.0492$$

Bodie - Chapter 02 #56

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.2 List and describe the different types of bonds available.

Section: 2.2 The bond market

57. An investor purchases one corporate bond that pay rates of return of 6.40%. If the investor is in the 15% tax bracket, his after tax rates of return on the corporate bond would be

- A.
- B.**
- C.
- D.

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

Bodie - Chapter 02 #57

Difficulty: Medium

Gradable: automatic

Learning Objective: 2.2 List and describe the different types of bonds available.

Section: 2.2 The bond market

58. A tax-exempt bond 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.
- B.
- C.**
- D.

$$8.68\% = 6.25\% / (1 - 0.28)$$

Bodie - Chapter 02 #58

Difficulty: Medium

Gradable: automatic

59.

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

- A.
- B.
- C.**
- D.

$$\$60 \times 0.030/4 = \$0.45$$

Chapter 02 - Testbank Summary