

Downtown Industries common stock had returns of 7.2, 11.5, 10.5, and 7.5 percent, respectively, over the past four years. What is the standard deviation of these returns?

2.41%

2.15%

2.59%

2.38%

2.82%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Standard deviation and variance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-69 Downtown Industries common stock had...

John began his investing program with a \$5,500 initial investment. The table below recaps his returns each year as well as the amounts he added to his investment account. What is his dollar-weighted average return?

Time	Investment	Return
0	\$5,500	8.5%
1	\$2,000	-5.0%
2	\$2,600	4.5%
3	\$3,000	9.0%
4	\$900	-2.5%

2.6%

1.5%

2.0%

2.2%

1.8%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-95 John began his investing program...

The arithmetic average return is the:

summation of the returns for a number of years, t , divided by $(t - 1)$.

average squared return earned in a single year.

average compound return earned per year over a multi-year period.

compound total return for a period of years, t , divided by t .

return earned in an average year over a multi-year period.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Remember

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-11 The arithmetic average return is...

A stock has an average arithmetic return of 10.55 percent and an average geometric return of 10.41 percent based on the annual returns for the last 15 years. What is projected average annual return on this stock for the next 10 years?

10.79%

10.46%

10.21%

10.38%

10.17%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-91 A stock has an average...

Shane purchased a stock this morning at a cost of \$13 a share. He expects to receive an annual dividend of \$.27 a share next year. What will the price of the stock have to be one year from today if Shane is to earn an 8 percent rate of return on this investment?

\$14.28

\$12.88

\$12.60

\$13.77

\$12.38

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-53 Shane purchased a stock this...

You purchased a stock for \$50.00 a share and resold it one year later. Your total return for the year was 11.5 percent and the dividend yield was 2.8 percent. At what price did you resell the stock?

\$52.08

\$50.62

\$42.78

\$51.93

\$54.35

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-48 You purchased a stock for...

One year ago, you purchased 400 shares of Southern Cotton at \$36.20 a share. During the past year, you received a total of \$250 in dividends. Today, you sold your shares for \$38.50 a share. What is your total return on this investment?

9.69%

11.64%

7.60%

12.68%

8.08%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-47 One year ago, you purchased...

The standard deviation is a measure of:

volatility.

changes in dividend yields.

total return.

changes in the capital gains rate.

capital gains.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Remember

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Standard deviation and variance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-09 The standard deviation is a...

The geometric return on a stock over the past 10 years was 7.9 percent. The arithmetic return over the same period was 8.8 percent. What is the best estimate of the average return on this stock over the next 5 years?

9.08%

9.47%

9.13%

9.05%

8.40%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-89 The geometric return on a...

Which one of the following had the highest average return for the period 1926 to 2021?

long-term government bonds

large-company stocks

U.S. Treasury bills

long-term corporate bonds

small-company stocks

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-02 The historical returns on various important types of investments.

Section : 1.2 The Historical Record

Topic : Historical market performance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-22 Which one of the following...

Which one of the following is considered the best method of comparing the returns on various-sized investments?

real dollar return

total dollar return

absolute dollar return

variance return

percentage return

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-21 Which one of the following...

For the period 1926 to 2021, long-term government bonds had an average return that _____ the average return on long-term corporate bonds while having a standard deviation that _____ the standard deviation of the long-term corporate bonds.

exceeded; was less than

was less than; was less than

exceeded; equaled

exceeded; exceeded

was less than; exceeded

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-04 The relationship between risk and return.

Section : 1.4 Return Variability: The Second Lesson

Topic : Historical market performance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-33 For the period 1926-2018, long-term...

The dividend yield is defined as the annual dividend expressed as a percentage of the:

capital gain.

total annual return.

average stock price.

initial stock price.

ending stock price.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Remember

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-02 The dividend yield is defined...

An initial investment of \$60,000 forty years ago is worth \$1,222,293 today. What is the geometric average return on this investment?

9.50%

7.83%

8.52%

11.08%

7.94%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-87 An initial investment of \$60,000...

Which one of the following statements is correct?

Large-company stocks are historically riskier than small-company stocks.

The standard deviation of the returns on Treasury bills is zero.

The standard deviation is a means of measuring the volatility of returns on an investment.

A risky asset will always have a higher annual rate of return than a riskless asset.

There is an indirect relationship between risk and return.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-04 The relationship between risk and return.

Section : 1.4 Return Variability: The Second Lesson

Topic : Standard deviation and variance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-36 Which one of the following...

Which one of the following had the greatest volatility of returns for the period 1926 to 2021?

small-company stocks

U.S. Treasury bills

long-term government bonds

large-company stocks

long-term corporate bonds

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Historical market performance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-31 Which one of the following...

The rate of return earned on a U.S. Treasury bill is frequently used as a proxy for the:

risk-free rate.

expected rate of return.

market rate of return.

deflated rate of return.

risk premium.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Remember

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.3 Average Returns: The First Lesson

Topic : Risk and return relationship

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-06 The rate of return earned...

The average compound return earned per year over a multi-year period is called the:

arithmetic average return.

variance.

average capital gains yield.

total return.

geometric average return.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Remember

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-12 The average compound return earned...

You purchased a stock eight months ago for \$36 a share. Today, you sold that stock for \$41.50 a share. The stock pays no dividends. What was your annualized rate of return?

26.03%

25.70%

27.67%

23.32%

23.77%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Annual, holding period, and effective rates

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-55 You purchased a stock eight...

The wider the distribution of an investment's returns over time, the _____ the expected average rate of return and the _____ the expected volatility of those returns.

lower; higher

The distribution of returns does not affect the expected average rate of return.

higher; lower

lower; lower

higher; higher

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-04 The relationship between risk and return.

Section : 1.4 Return Variability: The Second Lesson

Topic : Normal probability distribution

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-37 The wider the distribution of...

Last year, ABC stock returned 12.6 percent, the risk-free rate was 4.0 percent, and the inflation rate was 2.5 percent. What was the risk premium on ABC stock?

8.43%

8.60%

8.88%

8.97%

8.20%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.3 Average Returns: The First Lesson

Topic : Risk premiums

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-60 Last year, ABC stock returned...

The average risk premium on large-company stocks for the period 1926 to 2021 was:

13.6%.

8.5%.

9.0%.

12.3%.

6.7%.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.3 Average Returns: The First Lesson

Topic : Historical market performance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-28 The average risk premium on...

Trevon just sold a stock and realized a 6.5 percent return for a 5-month holding period. What was his annualized rate of return?

27.24%

13.20%

12.66%

15.78%

16.32%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Annual, holding period, and effective rates

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-54 Trevon just sold a stock...

Tessa invested \$10,000 eight years ago. Her arithmetic average return on this investment is 7.82 percent, and her geometric average return is 7.54 percent. What is Tessa's portfolio worth today?

\$17,293

\$17,888

\$18,263

\$17,529

\$16,789

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-83 Tessa invested \$10,000 eight years...

An asset has an average annual historical return of 16.1 percent and a standard deviation of 18.7 percent. What range of returns would you expect to see 95 percent of the time?

-15.4% to + 40.1%

-48.1% to + 56.0%

-43.4% to + 56.3%

−21.3% to + 53.5%

−24.0% to + 47.2%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-04 The relationship between risk and return.

Section : 1.4 Return Variability: The Second Lesson

Topic : Normal probability distribution

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-70 An asset has an average...

One year ago, you purchased 1,000 shares of common stock at \$52.00 per share. During the past year, you received dividends of \$.152 per share. Today, you sold your shares for \$57.00 per share. What is your total return on this investment?

14.32%

12.54%

−14.32%

−12.54%

−1.00%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-104 One year ago, you purchased...

Ciara has been adding funds to his investment account each year for the past 3 years. She started with an initial investment of \$1,000. After earning a 10 percent return the first year, she added \$3,000 to his portfolio, but her investments lost 5 percent. Undeterred, Ciara added \$2,000 the

next year and earned a 2 percent return. Last year, discouraged by the recent results, she only added \$500 to her portfolio, but in this final year her investments earned 8 percent. What was Ciara's dollar-weighted average return for her investments?

3.5%

3.0%

1.5%

2.5%

2.0%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-94 Ciara has been adding funds to his...

A stock has an average historical risk premium of 6.1 percent. The expected risk-free rate for next year is 2.2 percent. What is the expected rate of return on this stock for next year?

8.30%

7.53%

6.50%

8.00%

9.34%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.3 Average Returns: The First Lesson

Topic : Expected return

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-59 A stock has an average...

One year ago, you purchased 500 shares of stock at a cost of \$10,500. The stock paid an annual dividend of \$1.10 per share. Today, you sold those shares for \$23.90 each. What is the capital gains yield on this investment?

14.75%

13.81%

12.49%

9.96%

10.52%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-45 One year ago, you purchased...

A stock produced annual returns of 8.5, -18, 15, 17, and 12 percent over the past five years, respectively. What is the geometric average return?

6.34%

8.20%

5.78%

7.21%

6.04%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-101 A stock produced annual returns...

If you multiply the number of shares outstanding for a stock by the price per share, you are computing the firm's:

time value.

equity ratio.

market share.

total book value.

market capitalization.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.2 The Historical Record

Topic : Market, book, and other firm values

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-20 If you multiply the number...

You own a stock that has produced an arithmetic average return of 5.6 percent over the past five years. The annual returns for the first four years were 15, 10, -18, and 8 percent, respectively. What was the rate of return on the stock in year five?

13.00%

32.00%

-5.00%

6.25%

2.75%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-100 You own a stock that...

Yoonsu owns a stock that has historically returned 6.3 percent annually with a standard deviation of 12.1 percent. There is only a .5 percent chance that the stock will produce a return greater than _____ percent in any one year.

45.8

38.1

29.2

42.6

24.3

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-04 The relationship between risk and return.

Section : 1.4 Return Variability: The Second Lesson

Topic : Normal probability distribution

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-73 Yoonsu owns a stock that...

The geometric return on an investment is approximately equal to the arithmetic return:
plus half the variance.

divided by two.

minus half the standard deviation.

minus half the variance.

plus half the standard deviation.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-41 The geometric return on an...

Christine owns a stock that dropped in price from \$43.57 per share to \$39.49 per share over the past year. The dividend yield on that stock is 1.6 percent. What is her total return on this investment for the year?

−10.49%

−9.11%

−8.04%

−11.31%

−7.76%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-51 Christine owns a stock that...

Which one of the following had the highest risk premium for the period 1926 to 2021?

large-company stocks

small-company stocks

long-term government bonds

U.S. Treasury bills

intermediate-term government bonds

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.3 Average Returns: The First Lesson

Topic : Historical market performance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-25 Which one of the following...

Eight months ago, you purchased 300 shares of a non-dividend paying stock for \$27 a share.

Today, you sold those shares for \$31.59 a share. What was your annualized rate of return on this investment?

17.00%

25.50%

21.45%

28.00%

26.55%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Annual, holding period, and effective rates

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-56 Eight months ago, you purchased...

Luis owns a stock that has had an average geometric return of 10.50 percent and an average arithmetic return of 11.00 percent over the past six years. What average annual rate of return should Luis expect to earn over the next four years?

10.38%

10.64%

10.70%

10.40%

10.81%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-102 Louis owns a stock that...

Blackstone Mines stock returned 10.5, 17.2, -9.0, and 14.5 percent over the past four years, respectively. What is the geometric average return?

5.84%

9.94%

7.78%

10.33%

6.36%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-81 Blackstone Mines stock returned 10.5,...

Blume's formula is used to:

measure past performance in a consistent manner.

predict future rates of return.

convert a geometric average return into an arithmetic average return.

compute the historical mean return over a multi-year period.

convert an arithmetic average return into a geometric average return.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-42 Blume's formula is used to:

Capital gains are included in the return on an investment:

only if the investment incurs a loss in value or is sold.

whenever dividends are paid.

when either the investment is sold or the investment has been owned for at least one year.

whether the investment is sold or not.

only if the investment is sold and the capital gain is realized.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-17 Capital gains are included in...

An asset had annual returns of 17, −35, −18, 24, and 6 percent, respectively, over the past five years. What is the arithmetic average return?

−1.2%

1.6%

1.2%

2.3%

.8%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-79 An asset had annual returns...

Which one of the following should be used as the mean return when you are defining the normal distribution of an investment's annual rates of return?

arithmetic average return for the period divided by $N - 1$

geometric average return for the period divided by $N - 1$

arithmetic average return for the period

geometric average return for the period

total return for the period divided by $N - 1$

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Normal probability distribution

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-38 Which one of the following...

The capital gains yield is equal to:

$$\frac{(P_{t+1} - P_t + D_t)}{P_t}$$

$$\frac{(P_{t+1} - P_t)}{P_{t+1}}$$

$$\frac{D_{t+1}}{P_t}$$

$$\frac{(P_{t+1} - P_t)}{P_t}$$

$$\frac{(P_t - P_{t+1} + 1 + D_{t+1})}{P_t + 1}$$

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Remember

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-03 The capital gains yield is...

Over the past five years, CrossTrak stock produced returns of 25.4, 8.5, 9.7, 8.1, and 6.1 percent, respectively. For the same five years, the risk-free rate was 2.5, 4.3, 8.2, 4.3, and 3.4 percent, respectively. What is the arithmetic average risk premium on Teen Clothing stock for this period?

7.22%

7.02%

7.33%

6.88%

7.56%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.3 Average Returns: The First Lesson

Topic : Risk premiums

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-62 Over the past five years,...

Which one of the following statements is correct concerning the dividend yield and the total return?

The total return plus the capital gains yield is equal to the dividend yield.

The total return must be greater than the dividend yield.

The total return can be negative but the dividend yield cannot be negative.

The dividend yield exceeds the total return when a stock increases in value.

The dividend yield can be zero while the total return must be a positive value.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-14 Which one of the following...

The risk-free rate is:

another term for the dividend yield.

the rate of return on a riskless investment.

defined as the increase in the value of a share of stock over time.

defined as the total of the capital gains yield plus the dividend yield.

the rate of return earned on an investment in a firm that you personally own.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Remember

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.3 Average Returns: The First Lesson

Topic : Risk and return relationship

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-05 The risk-free rate is:

Over the past five years, Breeze Airways stock had annual returns of 15, 9, -12, 10, and 6 percent, respectively. What is the variance of these returns?

.00560

.01038

.05600

.00750

.01073

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Standard deviation and variance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-65 Over the past five years,...

An asset had returns of 7.7, 5.4, 3.6, -4.2, and -1.3 percent, respectively, over the past five years. What is the variance of these returns?

.00216

.00239

.00259

.00184

.00173

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Standard deviation and variance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-66 An asset had returns of...

Jack owned a stock for five months and earned an annualized rate of return of 6 percent. What was the holding period return?

2.46%

2.72%

2.42%

2.37%

2.64%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Annual, holding period, and effective rates

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-57 Jack owned a stock for...

You purchased 300 shares of Giant common stock for \$25.30 a share, one year ago. Today, you sold your shares for \$25.40 a share. During this past year, the stock paid \$.97 in dividends per share. What is your dividend yield on this investment?

3.93%

3.37%

3.16%

3.83%

3.44%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-109 You purchased 300 shares of Giant...

A frequency distribution, which is completely defined by its average (mean) and variance or standard deviation, is referred to as a(n):

average geometric return.

expected rate of return.

normal distribution.

variance distribution.

average arithmetic return.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Remember

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Normal probability distribution

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-10 A frequency distribution, which is...

Over the past ten years, large-company stocks have returned an average of 8.7 percent annually, long-term corporate bonds have earned 4.1 percent annually, and U.S. Treasury bills have returned 2.5 percent annually. How much additional risk premium would you have earned if you had invested in large-company stocks rather than long-term corporate bonds over those ten years?

3.7%

4.6%

1.7%

6.4%

4.2%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.3 Average Returns: The First Lesson

Topic : Risk premiums

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-63 Over the past ten years,...

A portfolio had an original value of \$7,400 seven years ago. The current value of the portfolio is \$11,898. What is the average geometric return on this portfolio?

7.88%

7.67%

7.47%

7.02%

7.59%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-86 A portfolio had an original...

A single common stock share was purchased for \$50.00 at the beginning of the year. The end of year stock price was \$49.35. What was the amount of the annual dividend if the total return for the year was 2.3 percent?

\$1.80 per share

\$2.20 per share

\$1.25 per share

\$1.60 per share

\$1.40 per share

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-105 A single common stock share...

You own a stock that has an average geometric return of 12.30 percent and an average arithmetic return of 12.55 percent over the past six years. What average annual rate of return should you expect to earn over the next four years?

12.40%

12.51%

12.44%

12.47%

12.38%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-92 You own a stock that has an...

The mean plus or minus one standard deviation defines the _____ percent probability range of a normal distribution.

82

68

95

90

50

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Normal probability distribution

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-34 The mean plus or minus...

Xin just sold a stock and realized a 6.25 percent return for a 7-month holding period. What was her annualized rate of return?

15.29%

9.98%

17.20%

12.78%

10.95%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Annual, holding period, and effective rates

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-98 Xin just sold a stock and realized...

You own a stock that has produced an arithmetic average return of 8.6 percent over the past five years. The annual returns for the first four years were 16, 11, −19, and 3 percent, respectively. What was the rate of return on the stock in year five?

28.00%

32.00%

2.75%

−5.00%

6.25%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-78 You own a stock that...

The average compound return earned per year over a multi-year period when investment inflows and outflows are considered is called the:

total return.

average capital gains yield.

arithmetic average return.

geometric average return.

dollar-weighted average return.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Remember

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-13 The average compound return earned...

Which one of the following had the narrowest bell curve for the period 1926 to 2021?

long-term government bonds

long-term corporate bonds

large-company stocks

small-company stocks

U.S. Treasury bills

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Historical market performance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-30 Which one of the following...

Based on the period of 1926 to 2021, the risk premium for small-company stocks averaged:

15.0%.

16.8%.

13.0%.

12.3%.

17.4%.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.3 Average Returns: The First Lesson

Topic : Historical market performance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-27 Based on the period of...

A stock has an average historical return of 10.7 percent and a standard deviation of 19.3 percent. Which range of returns would you expect to see approximately two-thirds of the time?

8.6% to + 30.0%

−3.9% to + 32.5%

−8.9% to + 31.5%

+4.6% to + 33.8%

−8.6% to + 30.0%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-04 The relationship between risk and return.

Section : 1.4 Return Variability: The Second Lesson

Topic : Normal probability distribution

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-71 A stock has an average...

The average risk premium on long-term corporate bonds for the period 1926 to 2021 was:

3.1%.

3.7%.

3.9%.

3.3%.

2.4%.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.3 Average Returns: The First Lesson

Topic : Historical market performance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-29 The average risk premium on...

Sienna purchased 200 shares of Coulter Industries stock and held it for 3 months before reselling it. What is the value of "m" when computing the annualized return on this investment?

.33

4.00

.40

.25

3.00

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Annual, holding period, and effective rates

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-16 Stacey purchased 300 shares of...

Over the past four years, Lo-Ball Trucking stock returned 32.5, 34.2, 14.8, and –23.3 percent annually. What is the arithmetic average return?

14.55%

15.05%

18.23%

25.32%

19.85%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-77 Over the past four years,...

Jim began his investing program with a \$4,000 initial investment. The table below recaps his returns each year as well as the amounts he added to his investment account. What is his dollar-weighted average return?

Time	Investment	Return
0	\$4,000	10%
1	\$2,800	-5%
2	\$900	2%
3	\$1,600	8%
4	\$2,100	-3%
5	\$2,400	6%

3.2%

3.6%

2.2%

1.6%

2.6%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-96 Jim began his investing program...

One year ago, you purchased 200 shares of Southern Foods common stock for \$39.50 a share. Today, you sold your shares for \$35.40 a share. During this past year, the stock paid \$1.36 in dividends per share. What is your dividend yield on this investment?

3.165%

3.443%

3.533%

3.610%

3.375%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-43 One year ago, you purchased...

Sanqwey decides to begin investing some portion of his annual bonus, beginning this year with \$5,000. In the first year he earns a 10 percent return and adds \$4,000 to his investment. In the second his portfolio loses 6 percent but, sticking to his plan, he adds \$3,000 to his portfolio. In this year his portfolio returns 4 percent. What is Sanqwey's dollar-weighted average return on his investments?

1.55%

2.32%

2.85%

.34%

1.20%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-93 Sanqwey decides to begin investing...

An asset had annual returns of 12, 18, 6, -9, and 5 percent, respectively, for the last five years. What is the variance of these returns?

.01065

.04052

.02038

.00810

.01013

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Standard deviation and variance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-64 An asset had annual returns...

Downtown Industries' common stock had returns of 5.2, 10.3, 9.3, and 9.5 percent, respectively, over the past four years. What is the standard deviation of these returns?

2.29%

2.38%

2.82%

2.41%

2.59%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Standard deviation and variance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-99 Downtown Industries' common stock had...

The additional return earned for accepting risk is called the:

inflated return.

riskless rate.

real return.

capital gains yield.

risk premium.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Remember

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.3 Average Returns: The First Lesson

Topic : Risk premiums

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-08 The additional return earned for...

Russell decides to begin investing some portion of his annual bonus, beginning this year with \$12,000. In the first year he earns a 20 percent return and adds \$10,000 to his investment. In the second his portfolio loses 2 percent but, sticking to his plan, he adds \$8,000 to his portfolio. In this year his portfolio returns 15 percent. What is Russell's dollar-weighted average return on his investments?

8.55%

9.32%

6.34%

9.76%

7.20%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-114 Russell decides to begin investing some...

An asset had annual returns of 7, 15, -10, 8, and 14 percent, respectively, for the last five years. What is the variance of these returns?

.01065

.06800

.01007

.00939

.02308

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Standard deviation and variance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-112 An asset had annual returns of...

You invested \$6,000 six years ago. The arithmetic average return on your investment is 9.3 percent and the geometric average return is 9.57 percent. What is the value of your portfolio today?

\$10,382

\$11,195

\$10,092

\$10,947

\$10,899

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-82 You invested \$6,000 six years...

One year ago, you purchased 500 shares of stock at a cost of \$6,000. The stock paid an annual dividend of \$1.31 per share. Today, you sold those shares for \$15.00 each. What is the capital gains yield on this investment?

20.00%

30.75%

21.50%

25.00%

8.80%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-97 One year ago, you purchased...

The risk premium is defined as the rate of return on:

a risky asset minus the risk-free rate.

a U.S. Treasury bill.

a riskless investment.

a risky asset minus the inflation rate.

the overall market.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Remember

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.3 Average Returns: The First Lesson

Topic : Risk premiums

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-07 The risk premium is defined...

An annualized return:

is computed as $(1 + \text{holding period percentage return})^m$, where “m” is the number of months in the holding period.

is expressed as the summation of the capital gains yield and the dividend yield on an investment.

is expressed as the capital gains yield that would have been realized if an investment had been held for a twelve-month period.

is computed as $(1 + \text{holding period percentage return})^m$, where “m” is the number of holding periods in a year.

is less than a holding period return when the holding period is less than one year.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Annual, holding period, and effective rates

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-15 An annualized return:

Celsius stock had year-end prices of \$42, \$37, \$44, and \$46 over the past four years, respectively. What is the arithmetic average rate of return?

3.17%

4.28%

11.79%

10.63%

3.85%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-80 Celsius stock had year-end prices...

You have been researching a company and have estimated that the firm's stock will sell for \$44 a share one year from now. You also estimate the stock will have a dividend yield of 2.18 percent. How much are you willing to pay per share today to purchase this stock if you desire a total return of 15 percent on your investment?

\$40.20

\$38.24

\$39.00

\$37.55

\$38.00

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-52 You have been researching a...

Over the past four years, the common stock of Jess Electronics Company produced annual returns of 7.2, 5.8, 11.2, and 13.6 percent, respectively. Treasury bills produced returns of 3.4, 3.3, 4.1, and 4.0 percent, respectively over the same period. What is the standard deviation of the risk premium on Jess Electronics Company stock for this time period?

4.61%

4.46%

2.23%

3.22%

2.86%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Standard deviation and variance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-75 Over the past four years,...

Based on the period 1926 to 2021, the risk premium for U.S. Treasury bills was:

0%.

2.7%.

2.0%.

1.2%.

2.4%.

2.7%.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.3 Average Returns: The First Lesson

Topic : Historical market performance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-26 Based on the period 1926 to 2021,...

A stock produced annual returns of 8.3, -21, 12, 42, and 9 percent over the past five years, respectively. What is the geometric average return?

6.03%

8.20%

6.34%

7.21%

5.78%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-84 A stock produced annual returns...

Today, you sold 500 shares of Solo Corporation, for \$27.50 a share. You bought the shares one year ago at a price of \$34.23 a share. Over the year, you received a total of \$300 in dividends. What is your capital gains yield on this investment?

19.66%

−17.91%

−19.66%

−24.47%

24.47%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-46 Today, you sold 500 shares...

You purchased a stock for \$35.00 a share and resold it one year later. Your total return for the year was 7.5 percent and the dividend yield was 1.4 percent. At what price did you resell the stock?

\$38.24

\$36.15

\$36.05

\$37.14

\$35.75

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-106 You purchased a stock for...

Over the past four years, Jellystone Quarry stock produced returns of 12.5, 15.1, 8.7, and 2.6 percent, respectively. For the same period, the risk-free rate was 4.7, 5.3, 3.9, and 3.4 percent each year, respectively. What is the arithmetic average risk premium on this stock during these four years?

5.40%

5.83%

5.25%

5.13%

5.97%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.3 Average Returns: The First Lesson

Topic : Risk premiums

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-61 Over the past four years,...

You purchased a stock for \$23.93 a share, received a dividend of \$.51 per share, and sold the stock after one year for \$23.99 a share. What was your dividend yield on this investment?

2.45%

2.13%

2.67%

2.75%

2.01%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-44 You purchased a stock for...

Brandy owns a stock that has historically returned 11.5 percent annually with a standard deviation of 8.3 percent. There is only a .5 percent chance that the stock will produce a return greater than _____ percent in any one year.

48.5

29.2

32.3

24.9

36.4

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-04 The relationship between risk and return.

Section : 1.4 Return Variability: The Second Lesson

Topic : Normal probability distribution

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-113 Brandy owns a stock that has...

The geometric mean return on large-company stocks for the 1926 to 2021 period:

is approximately equal to the arithmetic mean return plus one-half of the variance.

is approximately equal to the arithmetic mean return minus one-half of the standard deviation.

is approximately equal to the arithmetic mean return plus one-half of the standard deviation.

is less than the arithmetic mean return.

exceeds the arithmetic mean return.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-02 The historical returns on various important types of investments.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-39 The geometric mean return on...

The geometric return on an asset over the past 12 years has been 14.50 percent. The arithmetic return over the same period was 14.96 percent. What is the best estimate of the average return on this asset over the next 5 years?

14.67%

14.86%

14.79%

14.88%

14.47%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-90 The geometric return on an...

You have owned a stock for seven years. The geometric average return on this investment for those seven years is positive even though the annual rates of return have varied significantly. Given this, you know the arithmetic average return for the period is:

less than the geometric return and could be negative, zero, or positive.

greater than the geometric average return.

either equal to or greater than the geometric average return.

positive but less than the geometric average return.

equal to the geometric average return.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-40 You have owned a stock...

Big Town Markets common stock returned 14.3, 12.5, 9.9, 6.5, and 11.1 percent, respectively, over the past five years. What is the arithmetic average return?

10.86%

12.20%

11.66%

11.04%

13.80%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-76 Big Town Markets common stock...

Jermaine purchased 750 shares of stock at a price of \$93.32 a share and received a dividend of \$2.41 per share. After nine months, he resold the stock for \$98.23 a share. What was his total dollar return?

\$2,712

\$5,490

\$5,502

\$5,600

\$4,293

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Dollar and percentage returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-50 Jermaine purchased 750 shares of...

Hussein purchased a stock for \$33.33 a share, received a dividend of \$.1.85 a share, and sold the stock after one year for \$38.29 a share. What was his dividend yield on this investment?

5.55%

5.65%

5.45%

5.75%

5.35%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-107 Hussein purchased a stock for...

You purchased a stock eight months ago for \$55 a share. Today, you sold that stock for \$64.50 a share. The stock pays no dividends. What was your annualized rate of return?

27.00%

18.35%

17.27%

19.34%

18.15%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Annual, holding period, and effective rates

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-108 You purchased a stock eight...

For the period 1926 to 2021, the annual return on large-company stocks:

never exceeded a positive 30 percent nor lost more than 20 percent.

was only negative for two or more consecutive years during the Great Depression.

was negative following every three-year period of positive returns.

remained negative for at least two consecutive years anytime that it was negative.

was unpredictable based on the prior year's performance.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-02 The historical returns on various important types of investments.

Section : 1.2 The Historical Record

Topic : Historical market performance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-24 For the period 1926 to 2021, the...

Over the past four years, a stock produced returns of 13, 6, -5, and 18 percent, respectively. What is the standard deviation of these returns?

9.97%

8.63%

10.11%

10.15%

9.93%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Standard deviation and variance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-68 Over the past four years,...

Which one of the following should be used to compare the overall performance of three different investments?

capital gains yield

holding period percentage return

dividend yield

holding period dollar return

effective annual return

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Annual, holding period, and effective rates

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-19 Which one of the following...

An asset had annual returns of 13, 10, -14, 3, and 36 percent, respectively, for the past five years. What is the standard deviation of these returns?

18.09%

17.92%

8.96%

16.05%

20.03%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Standard deviation and variance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-67 An asset had annual returns...

You purchased a stock five months ago for \$54.00 a share. Today, you sold that stock for \$58.32 a share. The stock pays no dividends. What was your annualized rate of return?

22.39%

8.00%

15.70%

3.26%

20.29%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Annual, holding period, and effective rates

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-111 You purchased a stock five months...

Cody purchased 500 shares of Frozen Foods stock for \$72 a share. Seven months later, he received a dividend of \$.35 a share and also sold the shares for \$65 each. What was his annualized rate of return on this investment?

−9.24%

−26.23%

−15.31%

−12.32%

−16.35%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Annual, holding period, and effective rates

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-58 Cody purchased 500 shares of...

Assume you own a portfolio that is invested 50 percent in large-company stocks and 50 percent in corporate bonds. If you want to increase the potential annual return on this portfolio, you could:

replace the corporate bonds with Treasury bills.

replace the corporate bonds with intermediate-term government bonds.

reduce the expected volatility of the portfolio.

decrease the investment in stocks and increase the investment in bonds.

increase the standard deviation of the portfolio.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-04 The relationship between risk and return.

Section : 1.4 Return Variability: The Second Lesson

Topic : Standard deviation and variance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-35 Assume you own a portfolio...

Jefferson Mills stock produced returns of 14.8, 22.6, 5.9, and 9.7 percent, respectively, over the past four years. During those same years, U.S. Treasury bills returned 3.8, 4.6, 4.8, and 4.0 percent, respectively. What is the variance of the risk premiums on Jefferson Mills stock for these four years?

.00396

.00298

.00478

.00196

.00528

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Standard deviation and variance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-74 Jefferson Mills stock produced returns...

Over the past five years, an investment produced annual returns of 16.5, 21, -18, 4, and 17 percent, respectively. What is the geometric average return?

16.00%

15.60%

7.06%

8.00%

6.42%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-85 Over the past five years,...

When the total return on an investment is expressed on a per-year basis it is called the:

capital gains yield.

effective annual return.

initial return.

dividend yield.

holding period return.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Remember

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Annual, holding period, and effective rates

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-04 When the total return on...

You purchased 200 shares of WV Peanut stock at \$45.29 a share. During the year, you received a total of \$375 in dividends. Today, you sold your shares for \$50.22 a share. What is your total return on this investment?

10.08%

16.68%

15.03%

4.14%

13.55%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-110 You purchased 200 shares...

The total dollar return on a share of stock is defined as the:

dividend income divided by the beginning price per share.

change in the price of the stock over a period.

change in the stock price divided by the original stock price.

capital gain or loss plus any dividend income.

annual dividend income received.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Remember

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-01 The total dollar return on...

John began his investing program with a \$6,500 initial investment. The table below recaps his returns each year as well as the amounts he added to his investment account. What is his dollar-weighted average return?

Time	Investment	Return
0	\$6,500	7.5%
1	\$2,500	-4.0%
2	\$3,100	5.0%
3	\$3,000	8.0%
4	\$800	-1.5%

1.8%

2.2%

2.8%

1.5%

2.0%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-103 John began his investing program...

An asset has an average historical rate of return of 13 percent and a variance of .0106. What range of returns would you expect to see approximately two-thirds of the time?

+2.70% to + 23.30%

-6.52% to + 32.92%

+13.1% to + 13.3%

-9.58% to + 38.8%

-2.28% to + 24.48%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 2 Medium

Gradable : automatic

Learning Objective : 01-04 The relationship between risk and return.

Section : 1.4 Return Variability: The Second Lesson

Topic : Normal probability distribution

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-72 An asset has an average...

A stock had year-end prices of \$24, \$27, \$32, and \$26 over the past four years, respectively. What is the geometric average return?

2.18%

2.02%

2.81%

2.70%

2.55%

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.5 More on Average Returns

Topic : Arithmetic, geometric, and dollar-weighted returns

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-88 A stock had year-end prices...

Which one of the following had the smallest standard deviation of returns for the period 1926 to 2021?

small-company stocks

intermediate-term government bonds

large-company stocks

intermediate-term corporate bonds

long-term government bonds

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-03 The historical risks on various important types of investments.

Section : 1.4 Return Variability: The Second Lesson

Topic : Historical market performance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-32 Which one of the following...

Which one of the following statements is correct based on the historical returns for the period 1926 to 2021?

Large-company stocks outperformed small-company stocks.

Treasury bills yielded a higher rate of return than long-term government bonds.

Bond prices, in general, were more volatile than stock prices.

Small-company stocks outperformed large-company stocks every year during the period.

The inflation rate exceeded the rate of return on Treasury bills during some years.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-02 The historical returns on various important types of investments.

Section : 1.2 The Historical Record

Topic : Historical market performance

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-23 Which one of the following...

A stock sold for \$25 at the beginning of the year. The end of year stock price was \$25.50. What is the amount of the annual dividend if the total return for the year was 8.5 percent?

\$1.81

\$1.23

\$2.12

\$1.63

\$1.50

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Apply

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-49 A stock sold for \$25...

When we refer to the rate of return on an investment, we are generally referring to the:

effective annual rate of return.

annualized dividend yield.

capital gains yield.

total percentage return.

dividend yield.

Question Details

Accessibility : Keyboard Navigation

Accessibility : Screen Reader Compatible

Bloom's : Understand

Difficulty : 1 Easy

Gradable : automatic

Learning Objective : 01-01 How to calculate the return on an investment using different methods.

Section : 1.1 Returns

Topic : Stock returns and yields

Source : Chapter 01 Test Bank - Static > TB MC Qu. 01-18 When we refer to the...

Answer Key

Test name: Ch1_Fundamentals of Investments_10e

B

$$\text{Mean} = (.072 + .115 + .105 + .075) \div 4 = .0918$$

$$\text{Variance} = \frac{[(.072-.0918)^2 + (.115-.0918)^2 + (.105-.0918)^2 + (.075-.0918)^2]}{(4-1)} = .000462$$

$$\text{Standard Deviation} = \sqrt{(.000462)} = .215, \text{ or } 2.15\%$$

A

Using the Cash Flow function in a financial calculator, the cash flows to be entered are:

$$\text{CF}_0 = -\$5,500$$

$$\text{CF}_1 = -\$2,000$$

$$\text{CF}_2 = -\$2,600$$

$$\text{CF}_3 = -\$3,000$$

$$\text{CF}_4 = -\$900$$

$$\text{CF}_5 = \$15,359.31 \text{ (see calculations below)}$$

$$\text{Solve for IRR} = 2.6\%$$

$$\$5,500 \times (1.085) = \$5,967.50$$

$$(\$5,967.50 + \$2,000) \times (.95) = \$7,569.13$$

$$(\$7,569.13 + \$2,600) \times (1.045) = \$10,626.74$$

$$(\$10,626.74 + \$3,000) \times (1.09) = \$14,853.14$$

$$(\$14,853.14 + \$900) \times (.975) = \$15,359.31$$

E

See Section 1.5

B

$$\text{Projected return} = \{[(10 - 1) \div (15 - 1)] \times .1041\} + \{[(15 - 10) \div (15 - 1)] \times .1055\} = .1046, \text{ or } 10.46\%$$

D

$$.08 = (P_1 - \$13 + \$27) \div \$13; P_1 = \$13.77$$

E

Capital gains yield = $11.5\% - 2.8\% = 8.7\%$

$$\$50.00 \times (1 + .087) = \$54.35$$

E

$$[\$38.50 - \$36.20 + (\$250 \div 400)] \div \$36.20 = .808, \text{ or } 8.08\%$$

A

See Section 1.4

E

Projected return = $\{[(5 - 1) \div (10 - 1)] \times .0790\} + \{[(10 - 5) \div (10 - 1)] \times .0880\} = .0840$, or 8.40%

E

See Section 1.2

E

See Section 1.1

E

See Section 1.4

D

See Section 1.1

B

$$\$60,000(1+R)^{40} = \$1,222,293; \quad R = 7.83\%$$

$$N = 50; PV = -\$40,000; PMT = 0; FV = \$1,822,222; \text{CPT I/Y} = 7.83\%$$

C

See Section 1.4

A

See Section 1.4

A

See Section 1.3

E

See Section 1.5

E

$$\text{HPR} = (\$41.50 - \$36) \div \$36 = .1528$$

Annualized rate of return = $(1 + .1528)^{12/8}$ raised to the power of 12 divided by 8 - 1 = .2377, or 23.77%

E

See Section 1.4

B

$$\text{Risk premium} = 12.60\% - 4.00\% = 8.60\%$$

C

See Section 1.3

E

1 square

$$1 + \text{EAR} = (1 + .065)^{12/5} \text{ raised to the power of 12 divided by 5 - 1} = .1632, \text{ or } 16.32\%$$

B

$$\text{FV} = \$10,000 \times (1 + .0754)^8 = \$17,888$$

Using the TVM function in a financial calculator:

$$N = 8; I/Y = 7.54\%; PV = \$10,000; PMT = \$0; \text{CPT FV} = \$17,888$$

D

$$\text{Range} = 16.1\% \pm 2(18.7\%) = -21.3\% \text{ to } +53.5\%$$

B

$$[\$57.00 - \$52.00 + \$1.52] \div \$52.00 = .1254, \text{ or } 12.54\%$$

B

Using the Cash Flow function in a financial calculator, the cash flows to be entered are:

$$CF_0 = -\$1,000$$

$$CF_1 = -\$3,000$$

$$CF_2 = -\$2,000$$

$$CF_3 = -\$500$$

$$CF_4 = (((((\$1,000 \times 1.1) + \$3,000) \times .95) + \$2,000) \times 1.02 + \$500) \times 1.08 = \$7,033.93$$

$$\text{Solve for IRR} = 3.0\%$$

A

$$\text{Expected return} = 6.1\% + 2.2\% = 8.3\%$$

B

$$[(\$23.90 \times 500) - \$10,500] \div \$10,500 = .1381, \text{ or } 13.81 \text{ percent}$$

E

$$\text{Geometric average} = [(1 + .085)(1 - .18)(1 + .15)(1 + .17)(1 + .12)]^{1/5} \text{ raised to the power of } 1 \text{ divided by } 5 - 1 = .0604, \text{ or } 6.04\%$$

E

See Section 1.2

A

$$\text{Total return} = .056 \times 5 = .28$$

$$\text{Year 5 return} = .28 - (.15 + .10 - .18 + .08) = .13, \text{ or } 13\%$$

D

$$\text{Return} = 6.3\% + 3(12.1\%) = 42.6\%$$

D

See Section 1.5

E

$$[(\$39.49 - \$43.57) \div \$43.57] + .016 = -.0776, \text{ or } -7.76\%$$

B

See Section 1.3

E

$$\text{HPR} = (\$31.59 - \$27) \div \$27 = .17$$

$$\text{Annualized rate of return} = (1 + .17)^{12/8} \text{ raised to the power of 12 divided by } 8 - 1 = .2655, \text{ or } 26.55\%$$

C

$$\text{Projected return} = \{[(4 - 1) \div (6 - 1)] \times .1050\} + \{[(6 - 4) \div (6 - 1)] \times .1100\} = .1070, \text{ or } 10.70\%$$

C

$$\text{Geometric average} = [(1 + .105)(1 + .172)(1 - .090)(1 + .145)]^{1/4} \text{ raised to the power of 1 divided by } 4 - 1 = .0778, \text{ or } 7.78\%$$

B

See Section 1.5

D

See Section 1.1

A

$$\text{Average} = (.17 - .35 - .18 + .24 + .06) \div 5 = -.012, \text{ or } -1.2\%$$

C

See Section 1.4

D

See Section 1.1

B

Average risk premium = $[(.254 - .025) + (.085 - .043) + (.097 - .082) + (.081 - .043) + (.061 - .034)] \div 5 = .0702$, or 7.02%

C

See Section 1.1

B

See Section 1.3

E

Mean = $(.15 + .09 - .12 + .10 + .06) \div 5 = .056$

$$\text{Variance} = \frac{[(.15-.056)^2 + (.09-.056)^2 + (-.12-.056)^2 + (.10-.056)^2 + (.06-.056)^2]}{(5-1)} = .01073$$

B

Mean = $(.077 + .054 + .036 - .042 - .013) \div 5 = .0224$

$$\text{Variance} = \frac{[(.077-.0224)^2 + (.054-.0224)^2 + (.036-.0224)^2 + (-.042-.0224)^2 + (-.013-.0224)^2]}{(5-1)} = .00239$$

A

Annualized return = $(1 + x)^{12/5}$ raised to the power of 12 divided by $5 - 1 = .06$; $x = 1.06^{5/12}$ raised to the power of 5 divided by $12 - 1$; $x = \text{HPR} = 2.46$ percent

D

$\$.97 \div \$25.30 = .0383$, or 3.83%

C

See Section 1.4

B

Additional risk premium = $(.087 - .025) - (.041 - .025) = .0460$, or 4.60%

D

$$\$7,400(1+R)^7 = \$11,898; R = 7.02\%$$

$$N = 7; PV = -\$7,400; PMT = \$0; FV = \$11,898; CPT I/Y = 7.02\%$$

A

$$(\$49.35 - \$50.00 + D) \div \$50.00 = .023; D = \$1.80$$

A

$$\text{Projected return} = \{[(4 - 1) \div (6 - 1)] \times .1230\} + \{[(6 - 4) \div (6 - 1)] \times .1255\} = .1240, \text{ or } 12.40\%$$

B

See Section 1.4

E

$$1 + \text{EAR} = (1 + .0625)^{12/7} \text{ raised to the power of 12 divided by } 7 - 1 = .1095, \text{ or } 10.95\%$$

B

$$\text{Total return} = .086 \times 5 = .43$$

$$\text{Year 5 return} = .43 - (.16 + .11 - .19 + .03) = .32, \text{ or } 32\%$$

E

See Section 1.5

E

See Section 1.4

C

See Section 1.3

E

$$\text{Range} = 10.7\% \pm 19.3\% = -8.6\% \text{ to } +30.0\%$$

A

See Section 1.3

B

See Section 1.1 (There are four 3-month periods in a year)

A

$$\text{Return} = (.325 + .342 + .148 - .233) \div 4 = .1455, \text{ or } 14.55\%$$

E

Using the Cash Flow function in a financial calculator, the cash flows to be entered are:

$$\text{CF}_0 = -\$4,000$$

$$\text{CF}_1 = -\$2,800$$

$$\text{CF}_2 = -\$900$$

$$\text{CF}_3 = -\$1,600$$

$$\text{CF}_4 = -\$2,100$$

$$\text{CF}_5 = -\$2,400$$

$$\text{CF}_6 = \$15,246.78 \text{ (see calculations below)}$$

$$\text{Solve for IRR} = 2.6\%$$

$$\$4,000 \times (1.10) = \$4,400$$

$$(\$4,400 + \$2,800) \times (.95) = \$6,840$$

$$(\$6,840 + \$900) \times (1.02) = \$7,894.80$$

$$(\$7,894.80 + \$1,600) \times (1.08) = \$10,254.38$$

$$(\$10,254.38 + \$2,100) \times (.97) = \$11,983.75$$

$$(\$11,983.75 + \$2,400) \times (1.06) = \$15,246.78$$

B

$$\$1.36 \div \$39.50 = .03443, \text{ or } 3.443\%$$

A

Using the Cash Flow function in a financial calculator, the cash flows to be entered are:

$$\text{CF}_0 = -\$5,000$$

$$\text{CF}_1 = -\$4,000$$

$$\text{CF}_2 = -\$3,000$$

$$\text{CF}_3 = (((\$5,000 \times 1.10) + \$4,000) \times .94) + \$3,000 \times 1.04 = \$10,407.20$$

$$\text{Solve for IRR} = 1.55\%$$

E

$$\text{Mean} = (.12 + .18 + .06 - .09 + .05) \div 5 = .064$$

$$\text{Variance} = \frac{[(.12-.064)^2 + (.18-.064)^2 + (.06-.064)^2 + (-.09-.064)^2 + (.05-.064)^2]}{(5-1)} = .01013$$

A

$$\text{Mean} = (.052 + .103 + .093 + .095) \div 4 = .0858$$

$$\text{Variance} = \frac{[(.052-.0858)^2 + (.103-.0858)^2 + (.093-.0858)^2 + (.095-.0858)^2]}{(4-1)} = .00052492$$

$$\text{Standard Deviation} = \sqrt{(.00052492)} = .0229, \text{ or } 2.29\%$$

E

See Section 1.3

D

Using the Cash Flow function in a financial calculator, the cash flows to be entered are:

$$\text{CF}_0 = -\$12,000$$

$$\text{CF}_1 = -\$10,000$$

$$\text{CF}_2 = -\$8,000$$

$$\text{CF}_3 = (((\$12,000 \times 1.20) + \$10,000) \times .98) + \$8,000 \times 1.15 = \$36,698.80$$

$$\text{Solve for IRR} = 9.76\%$$

C

$$\text{Mean} = (.07 + .15 - .10 + .08 + .14) \div 5 = .068$$

$$\text{Variance} = \frac{[(.07-.068)^2 + (.15-.068)^2 + (-.10-.068)^2 + (.08-.068)^2 + (.14-.068)^2]}{(5-1)} = .01007$$

A

$$\text{FV} = \$6,000 \times (1 + .0957)^6 = \$10,382$$

Using the TVM function in a financial calculator:

$$N = 6; I/Y = 9.57\%; PV = \$6,000; PMT = \$0; \text{CPT FV} = \$10,382$$

D

$$[(\$15.00 \times 500) - \$6,000] \div \$6,000 = .2500, \text{ or } 25.00\%$$

A

See Section 1.3

D

See Section 1.1

E

Annual returns are: $(\$37 - \$42) \div \$42 = -.119048$; $(\$44 - \$37) \div \$37 = .189189$;
 $(\$46 - \$44) \div \$44 = .045455$
Average = $(-.119048 + .189189 + .045455) \div 3 = .0385$, or 3.85 percent

C

$$.15 = [(\$44 - P_0) \div P_0] + .0218; P_0 = \$39.00$$

D

Annual risk premiums are 3.8, 2.5, 7.1, and 9.6 percent, respectively.

$$\text{Mean} = (.038 + .025 + .071 + .096) \div 4 = .0575$$

$$\text{Variance} = \frac{[(.038 - .0575)^2 + (.025 - .0575)^2 + (.071 - .0575)^2 + (.096 - .0575)^2]}{(4-1)} = .001034$$

$$\text{Standard Deviation} = \sqrt{.001034} = .0322, \text{ or } 3.22\%$$

A

See Section 1.3

B

Geometric average = $[(1 + .083)(1 - .21)(1 + .12)(1 + .42)(1 + .09)]^{1/5}$ raised to the power of 1
divided by $5 - 1 = .0820$, or 8.20%

C

$$(\$27.50 - \$34.23) \div \$34.23 = -.1966, \text{ or } -19.66\%$$

D

$$\begin{aligned} \text{Capital gains yield} &= 7.5\% - 1.4\% = 6.1\% \\ \$35.00 \times (1 + .061) &= \$37.14 \end{aligned}$$

A

Average risk premium = $[(.125 - .047) + (.151 - .053) + (.087 - .039) + (.026 - .034)] \div 4 = .540$, or 5.40%

B

$\$.51 \div \$23.93 = .0213$, or 2.13%

E

Return = $11.5\% + 3(8.3\%) = 36.4\%$

D

See Section 1.5

C

Projected return = $\{[(5 - 1) \div (12 - 1)] \times .1450\} + \{[(12 - 5) \div (12 - 1)] \times .1496\} = .1479$, or 14.79%

B

See Section 1.5

A

Return = $(.143 + .125 + .099 + .065 + .111) \div 5 = .1086$, or 10.86%

B

$750 \times (\$98.23 - \$93.32 + \$2.41) = \$5,490$

A

$\$1.85 \div \$33.33 = .0555$, or 5.55%

A

HPR = $(\$64.5 - \$55) \div \$55 = .1727$, or 17.27%

Annualized rate of return = $(1 + .1727)^{12/8}$ raised to the power of 12 divided by 8 - 1 = .2700, or 27.00%

E

See Section 1.2

A

$$\text{Mean} = (.13 + .06 - .05 + .18) \div 4 = .08$$

$$\text{Variance} = \frac{[(.13-.08)^2 + (.06-.08)^2 + (-.05-.08)^2 + (.18-.08)^2]}{(4-1)} = .009933$$

$$\text{Standard Deviation} = \sqrt{(.009933)} = .997, \text{ or } 9.97\%$$

E

See Section 1.1

A

$$\text{Mean} = (.13 + .10 - .14 + .03 + .36) \div 5 = .096$$

$$\text{Variance} = \frac{[(.13-.096)^2 + (.10-.096)^2 + (-.14-.096)^2 + (.03-.096)^2 + (.36-.096)^2]}{(5-1)} = .032730$$

$$\text{Standard Deviation} = \sqrt{(.032730)} = .1809, \text{ or } 18.09\%$$

E

$$\text{HPR} = (\$58.32 - \$54.00) \div \$54.00 = .0800$$

$$\text{Annualized rate of return} = (1 + .0800)^{12/5} \text{ raised to the power of 12 divided by } 5 - 1 = .2029, \text{ or } 20.29\%$$

C

$$\text{HPR} = (\$65 - \$72 + \$35) \div \$72 = -.092361$$

$$\text{Annualized return} = (1 - .092361)^{12/7} \text{ raised to the power of 12 divided by } 7 - 1 = -.1531, \text{ or } -15.31\%$$

E

See Section 1.4

E

Annual risk premiums are 11.0, 18.0, 1.1, and 5.7 percent, respectively.

$$\text{Mean} = (.11 + .18 + .011 + .057) \div 4 = .0895$$

$$\text{Variance} = \frac{[(.11-.0895)^2 + (.18-.0895)^2 + (.011-.0895)^2 + (.057-.0895)^2]}{(4-1)} = .00528$$

C

Geometric average = $[(1 + .165)(1 + .21)(1 - .18)(1 + .04)(1 + .17)]^{1/5}$ raised to the power of 1 divided by 5 - 1 = .0706, or 7.06%

B

See Section 1.1

C

$[(\$50.22 - \$45.29) + (\$375 \div 200)] \div \$45.29 = .1503$, or 15.03%

D

See Section 1.1

C

Using the Cash Flow function in a financial calculator, the cash flows to be entered are:

CF0 = -\$6,500

C01 = -\$2,500

C02 = -\$3,100

C03 = -\$3,000

C04 = -\$800

C05 = \$17,615.61 (see calculations below)

Solve for IRR = 2.8%

$\$6,500 \times (1.075) = \$6,987.50$

$(\$6,987.50 + \$2,500) \times (.96) = \$9,108.00$

$(\$9,108.00 + \$3,100) \times (1.05) = \$12,818.40$

$(\$12,818.40 + \$3,000) \times (1.08) = \$17,083.87$

$(\$17,083.87 + \$800) \times (.985) = \$17,615.61$

A

Range = $.13 \pm \sqrt{(.0106)} = + 2.70\%$ to $+ 23.30\%$

D

$(\$26 \div \$24)^{1/3}$ raised to the power of 1 divided by 3 - 1 = .0270, or 2.70%

N = 3; PV = -\$24; PMT = \$0; FV = \$26; CPT I/Y = 2.70%

B

See Section 1.4

E

See Section 1.2

D

$$(\$25.50 - \$25 + D) \div \$25 = .085; D = \$1.63$$

D

See Section 1.1