ch02

Student: ____

1. Which of the following is not a money market instrument?
A. treasury bill
B. commercial paper
C. preferred stock
D. banker's acceptance

2. Ninety-one-day T-bill auctions are conducted _____.
A. daily
B. weekly
C. monthly
D. quarterly

3. When computing the bank discount yield in a leap year you would use ____ days in the year.
A. 260
B. 360
C. 365
D. 366

4. A dollar denominated deposit at a London bank is called ______.
A. eurodollars
B. LIBOR
C. fed funds
D. banker's acceptance

5. Money market securities are sometimes referred to as "cash equivalent" because
A. they are marketable
B. they are liquid
C. they are low-risk
D. all of the above

6. The most important feature of municipal bonds is their _______.
A. safety
B. liquidity
C. tax-exempt status
D. convertibility

7. ______ voting of common stock gives minority shareholders the most representation on the board of directors.
A. Majority
B. Cumulative
C. Rights
D. Proxy

8. _____ computes over 50 country indexes.
A. Dow Jones
B. The Federal Reserve
C. NASDAQ
D. MSCI

9. ______ would not be included in the EAFE index.
   A. Australia
   B. Canada
   C. France
   D. Japan

10. _____ is considered to be an emerging market country.
   A. France
   B. Norway
   C. Brazil
   D. Canada

11. __________ is a true statement.
   A. Dividends on preferred stocks are tax-deductible
   B. Common dividends are paid before preferred dividends
   C. Preferred stockholders have voting power
   D. Preferred dividends are usually cumulative

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

13. __________ measure bond market performance through creating their own bond market index.
   A. Lehman Brothers
   B. Merrill Lynch
   C. Salomon Brothers
   D. All of the above

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

15. __________ is not a true statement regarding municipal bonds.
   A. A municipal bond is a debt obligation issued by state or local governments.
   B. A municipal bond is a debt obligation issued by the Federal Government.
   C. The interest income from a Municipal bond is exempt from federal income taxation.
   D. The interest income from a Municipal bond is exempt from state and local taxation in the issuing state.

16. __________ is not a characteristic of a money market instrument.
   A. liquidity
   B. marketability
   C. low risk
   D. long maturity

17. In a futures contract, the short position is taken by the person who __________.
   A. commits to delivering the commodity
   B. commits to purchasing the commodity
   C. plays between second base and third base
   D. uses his margin

18. __________ is not a nickname for an organization which issues federal agency debt.
   A. Fannie Mae
   B. Freddie Mac
   C. Georgie Mac
   D. Ginnie Mae

19. Commercial paper is a short-term security issued by ___________ to raise funds.
A. the Federal Reserve
B. commercial banks
C. large well-known companies
D. the New York Stock Exchange

20. A German company sells a bond denominated in euros to German residents. This bond is called a _____.
A. Yankee bond
B. Samurai bond
C. Eurobond
D. none of the above

21. ___________ is a true statement regarding the Dow Jones Industrial Average.
A. It is a value-weighted average of 30 large industrial stocks
B. It is a price-weighted average of 30 large industrial stocks
C. It is a price-weighted average of 100 large stocks traded on the New York Stock Exchange
D. It is a value-weighted average of all stocks traded on the New York Stock Exchange

22. Treasury bills are financial instruments initially sold by ___________ to raise funds.
A. commercial banks
B. the Federal Government
C. large corporations
D. state and city governments

23. ___________ is a true statement.
A. At issuance, treasury notes maturities range up to 10 years
B. At issuance, treasury bonds maturities range up to 10 years
C. At issuance, treasury notes maturities range from 10 to 30 years
D. Treasury notes may be callable

24. A bond that has no collateral is called ___________.
A. a callable bond
B. a debenture
C. a junk bond
D. none of the above

25. A ___________ gives its holder the right to sell an asset for a specified exercise price on or before a specified expiration date.
A. call option
B. futures contract
C. put option
D. none of the above

26. The Tax Reform Act of 1986 restricted the use of _____.
A. private purpose tax-exempt bonds
B. general obligation municipal bonds
C. municipal revenue bonds
D. all of the above

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

28. The yield on tax-exempt bonds is
   A. usually less than 50% of the yield on taxable bonds
   B. normally about 90% of the yield on taxable bonds.
   C. normally greater than the yield on taxable bonds.
   D. none of the above

29. ___________ is not a money market instrument.
   A. A certificate of deposit
   B. A treasury bill
   C. A treasury bond
   D. Commercial paper

30. ___________ would best describe Eurodollars.
   A. Dollar-denominated deposits in Europe
   B. Dollar-denominated deposits at branches of foreign banks in the U.S.
   C. Dollar-denominated deposits at foreign banks and branches of American banks outside the U.S.
   D. Dollar-denominated deposits at American banks in the U.S.

31. The premier German stock index is the ___________.
   A. DAX
   B. FTSE
   C. GSE
   D. none of the above

32. A ___________ gives its holder the right to buy an asset for a specified exercise price on or before a specified expiration date.
   A. call option
   B. futures contract
   C. put option
   D. none of the above

33. A mortgage-backed security is ___________.
   A. an obligation that is secured by a pool of mortgages
   B. an ownership claim in a pool of mortgages
   C. either a or b
   D. neither a nor b

34. ___________ market-value weighted.
   A. The New York Stock Exchange Composite index is
   B. The Standard & Poor's Composite 500 Stock index is
   C. The Wilshire 5000 index is
   D. All of the above are

35. The interest rate charged by banks with excess reserves at a Federal Reserve Bank to banks needing overnight loans to meet reserve requirements is called the ___________.
   A. prime rate
   B. discount rate
   C. federal funds rate
   D. call money rate

36. In the event of the firm's bankruptcy, ___________.
   A. the firm's stockholders are personally liable for the firm's obligations
   B. the most shareholders can lose is their original investment in the firm's stock
   C. common shareholders are the first in line to receive their claims on the firm's assets
   D. bondholders have claim to what is left from the liquidation of the firm's assets after paying shareholders

37. The Dow Jones Industrial Average is computed by __________.
A. adding the prices of 30 large "blue-chip" stocks and dividing by 30
B. calculating the total market value of the 30 firms in the index and dividing by 30
C. adding the prices of the 30 stocks in the index and dividing by a divisor
D. adding the prices of the 500 stocks in the index and dividing by a divisor

38. An investor purchases one municipal and one corporate bond that pay rates of return of 8% and 10% respectively. If the investor is in the 15% tax bracket, his after tax rates of return on the municipal and corporate bonds would be respectively
A. 6.4% and 8%
B. 6.8% and 10%
C. 8% and 8.5%
D. 8% and 10%

39. If a treasury note has a bid price of $982.50, the quoted bid price in the Wall Street Journal would be __________.
A. $98:08
B. $98:25
C. $98:50
D. $98:40

40. A 10 year Treasury bond with an 8% coupon rate should sell for ____ a 10 year Treasury bond with a 12% coupon rate.
A. less than
B. more than
C. the same as
D. indeterminate

41. The price quotations of treasury bonds in the Wall Street Journal show an ask price of 104:16 and a bid price of 104:08. As a buyer of the bond you expect to pay __________.
A. $1,041.60
B. $1,045.00
C. $1,040.80
D. $1,042.50

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

43. Preferred stock is like equity in that _____.
A. it promises to pay a fixed stream of income each year
B. it has voting power regarding the firm's management
C. the firm has a contractual obligation to pay the dividend
D. none of the above

44. Preferred stock is like long-term debt in that _____.
A. it gives the holder voting power regarding the firm's management
B. it promises to pay to its holder a fixed stream of income each year
C. the dividend is a tax-deductible expense for the firm
D. all of the above

45. Which of the following most closely approximates the performance of a buy and hold portfolio strategy?
A. an equally weighted index
B. a price weighted index
C. a valve weighted index
D. weights are not a factor in this situation

46. In calculating the Dow Jones Industrial Average, the adjustment for a stock split occurs __________
   A. automatically
   B. by adjusting the divisor
   C. by adjusting the numerator
   D. none of the above

47. If the market prices of the 30 stocks in the Dow Jones Industrial Average all change by the same dollar amount on a given day (ignoring the stock splits), which stock will have the greatest impact on the average?
   A. the one with the highest price
   B. the one with the lowest price
   C. all 30 stocks will have the same impact
   D. the answer cannot be determined by the information given

48. A 5%, 15 year annual coupon bond issued by the State of Georgia is priced to yield 8%. If you are in the 28% tax bracket this bond would provide you with an equivalent taxable yield of __________
   A. 5.76%
   B. 9.2%
   C. 10.4%
   D. None of the above

49. Purchase of a futures contract involves __________
   A. the right to buy an item at a specified price
   B. the right to sell an item at a specified price
   C. the obligation to buy an item at a specified price
   D. the obligation to sell an item at a specified price

50. Ownership of a put option entitles the owner to the __________ to ___________ a specific stock, on or before a specific date, at a specific price
   A. right, buy
   B. right, sell
   C. obligation, buy
   D. obligation, sell

51. Futures and options are sometimes referred to as __________
   A. derivative assets
   B. integral assets
   C. contingent claims
   D. more than one of the above

52. The price which the owner of a call option must pay in order to purchase the stock named in the option contract is called the __________
   A. purchase price
   B. exercise price
   C. strike price
   D. More than one of the above

53. Ownership of a call option entitles the owner to the __________ to __________ a specific stock, on or before a specific date, at a specific price
   A. right, buy
   B. right, sell
   C. obligation, buy
   D. obligation, sell

54. The Lehman Brothers bond index covers over __________issues.
   A. 5000
   B. 5500
   C. 6600
   D. 6500

55. Which of the following types of bonds are excluded from most bond indices?
A. corporate bonds
B. junk bonds
C. municipal bonds
D. none of the above

56. The Hang Seng index reflects market performance on which of the following major stock markets?
A. Japan
B. Singapore
C. Taiwan
D. Hong Kong

57. The Standard and Poors 500 is a(n) ___________ weighted index.
A. equally
B. price
C. value
D. none of the above

58. A firm that fails to pay dividends on its preferred stock is said to be ___________.
A. insolvent
B. in arrears
C. insufferable
D. none of the above

59. Large well-known companies often issue their own short term unsecured debt notes directly to the public, rather than borrowing from banks, their notes are called ___________.
A. certificates of deposit
B. repurchase agreements
C. banker's acceptances
D. commercial paper

60. Which of the following is most like a short-term collateralized loan?
A. certificate of deposit
B. repurchase agreement
C. banker's acceptance
D. commercial paper

61. Euro dollars are ___________
A. dollar denominated deposits at any foreign bank or foreign branch of an American bank
B. dollar denominated deposits at banks located in Europe
C. currency issued by Euro Disney and traded on the black market
D. none of the above

62. Which of the following is most like a postdated check?
A. certificate of deposit
B. repurchase agreement
C. banker's acceptance
D. commercial paper

63. Treasury notes have initial maturities between _________years.
A. 2 and 4
B. 5 and 10
C. 10 and 30
D. 1 and 10

64. Which of the following are not characteristic of common stock ownership?
A. residual claimant
B. unlimited liability
C. voting rights
D. all of the above are characteristics of stock ownership

65. Derivative securities can be based on _____.
A. currencies
B. common stocks
C. home mortgages
D. all of the above

66. Why are derivatives potentially dangerous?
A. They involve leverage.
B. They are used to hedge.
C. They are a tool for risk management
D. There are more than 1200 different derivatives on the market.

67. What are business firms most likely to use derivative securities for?
A. hedging
B. speculating
C. doing calculus problems
D. none of the above

68. What would you expect to have happened to the spread between yields on commercial paper and Treasury bills immediately after September 11, 2001.
A. No change, the spread does not usually react to a crisis.
B. Increase, the spread usually increases in response to a crisis.
C. Decrease, the spread usually decreases in response to a crisis.
D. The spread has no "usual" reaction to a crisis.

69. Why do put options with exercise prices lower than the price of the underlying stock sell for positive prices?
A. The holder can exercise the option immediately, sell the stock, and make a profit.
B. The holder can buy the stock, exercise the option immediately, and make a profit.
C. At some point in the future, the holder may be able to buy the stock, exercise the option, and make a profit.
D. None of the above.

70. Three stocks have share prices of $5, $7, and $3. What is the value of a price-weighted index of the three stocks?
A. 15
B. 5
C. 105
D. indeterminate

71. Using the concept of risk adjusted returns, which of the following types of investments is likely to be the most risky?
A. Treasury bills
B. Commercial paper
C. Certificates of deposit
D. Bankers acceptances

72. Which of the following is not considered a money market investment?
A. Bankers acceptances
B. Eurodollar
C. Repurchase agreement
D. Treasury note

73. The "Board of Governors" directly controls which of the following interest rates?
   A. Bankers acceptances
   B. Brokers call
   C. Federal funds
   D. LIBOR

74. Integral investment needs to sell a government security and purchase the same security on day later. Which type of investment is this transaction?
   A. Commercial paper
   B. Guaranteed investment contract
   C. Repurchase agreement
   D. Reverse repo

75. WorldWide Imports, Inc. is selling goods in a third world nation and is concerned about the customer's ability to pay. Which instrument is the most likely to be used to guarantee payment by the buyer?
   A. Bankers acceptances
   B. Eurodollar
   C. Repurchase agreement
   D. Treasury note

76. The purchase price for a bond is listed as 104 and the annual coupon rate is 4.3%. What is the current yield on this bond?
   A. 0.00%
   B. 4.00%
   C. 4.13%
   D. 4.30%

77. The purchase price for a bond was $982.00 and the coupon rate on the bond is 3.9%. What is the current yield on this bond?
   A. 3.90%
   B. 3.97%
   C. 4.13%
   D. 4.30%

78. What is the tax exempt equivalent yield on a 9% bond yield given a marginal tax rate of 28%?
   A. 6.48%
   B. 7.25%
   C. 8.02%
   D. 9.00%

79. A tax free municipal bond provides a yield of 3.2%. What is the equivalent taxable yield on the bond given a 35% tax bracket?
   A. 3.20%
   B. 3.68%
   C. 4.92%
   D. 5.00%

80. What is the tax exempt equivalent yield on a 5.62% bond yield given a marginal tax rate of 15%?
   A. 4.78%
   B. 5.26%
   C. 5.62%
   D. 6.25%

81. A tax free municipal bond provides a yield of 2.34%. What is the equivalent taxable yield on the bond given a 28% tax bracket?
   A. 2.34%
   B. 2.68%
   C. 3.25%
   D. 4.92%

82. The Chompers Index is a price weighted stock index based on the 3 largest fast food chains. The stock prices for the three stocks are \$54, \$23, and \$44. What is the price weighted index value of the Chompers Index.
   A. 23.43
   B. 35.36
   C. 40.33
   D. 49.58

83. The Hydro Index is a price weighted stock index based on the 5 largest boat manufacturers in the nation. The stock prices for the give stocks are \$15, \$21, \$65, \$55 and \$41. What is the price weighted index value of the Hydro Index.
   A. 28.90
   B. 39.40
   C. 41.23
   D. 45.65

84. A benchmark index has three stocks priced at \$23, \$43, and \$56. The number of outstanding shares for each is 350,000 shares, 405,000 shares, and 553,000 shares, respectively. If the market value weighted index was 970 yesterday and the prices changed to \$23, \$41, and \$58, what is the new index value?
   A. 960
   B. 970
   C. 975
   D. 985

85. A benchmark index has three stocks priced at \$15, \$18, and \$60. The number of outstanding shares for each is 600,000 shares, 500,000 shares, and 200,000 shares, respectively. If the market value weighted index was 1021 yesterday and the prices changed to \$20, \$21, and \$55, what is the new index value?
   A. 1010
   B. 1020
   C. 1030
   D. 1040

ch02 Key

1. C
2. B
3. B
4. A
5. D
6. C
7. B
8. D
9. B
10. C
11. D
12. B
13. D
14. B
15. B
16. D
17. A
18. C
19. C
20. D
21. B
22. B
23. A
24. B
25. C
26. A
27. C
28. D
29. C
30. C
31. A
32. A
33. C
34. D
35. C
36. B

37. C

38. C

39. A

40. A

41. B

42. A

43. D

44. B

45. C

46. B

47. C

48. C

49. C

50. B

51. D

52. D

53. A

54. C

55. B

56. D

57. C

58. B

59. D

60. B

61. A

62. C

63. D

64. B

65. D

66. A

67. A

68. B

69. C

70. B

71. D

72. D

73. C

74. D

75. A

76. C

77. B

78. A

79. C

80. A

81. C

82. C

83. B

84. C

85. D

ch02 Summary

Category	*# of Questions*
Bodie - Chapter 02	85
Difficulty: Easy	38
Difficulty: Hard	9
Difficulty: Medium	38