Chapter 02 - Testbank

Student: ____

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

   A.
   B.
   C.
   D.

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

   A.
   B.
   C.
   D.

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

   A.
   B.
   C.
   D.

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

   A.
   B.
   C.
   D.

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

   A.
   B.
   C.
   D.

6. The most actively traded money market security is

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

16. The maximum maturity of certificate of deposits is

A.
B.
C.
D.

17. Which one of the following is a true description of the Dow Jones Industrial Average?

A.
B.
C.
D.

18. Treasury notes are financial instruments issued by ________ to raise funds.

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

24. ________ is not a money market instrument.

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

30. The Dow Jones Industrial Average is ________.

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

41. Large well-known companies often issue their own short term unsecured debt notes directly to the public, rather than borrowing from banks, their notes are called ________.

A.
B.
C.
D.

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

A.
B.
C.
D.

43. Eurodollars are ________.

A.
B.
C.
D.

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

A.
B.
C.
D.

45. Treasury notes have initial maturities between ________ weeks.

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

58. A tax-exempt bond is priced to yield 6.25%. If you are in the 28% tax bracket this bond would provide you with an equivalent taxable yield of ________.

A.
B.
C.
D.

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

A.
B.
C.
D.

Chapter 02 - Testbank Key

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

A.
B.
C.
D.

Bodie - Chapter 02 #1
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #2
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #3
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #4
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.2 List and describe the different types of bonds available.
Section: 2.2 The bond market

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

A.
B.
C.
D.

Bodie - Chapter 02 #5
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

6. The most actively traded money market security is

A.
B.
C.
D.

Bodie - Chapter 02 #6
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #7
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.4 Explain two important characteristics of ordinary shares.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #8
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #9
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.5 Interpret and explain basic share data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #10
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.5 Interpret and explain basic share data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #11
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #12
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #13
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #14
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.6 List and describe some of the various derivative instruments available.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #15
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.

Section: 2.1 The money market

16. The maximum maturity of certificate of deposits is

A.
B.
C.
D.

Bodie - Chapter 02 #16
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

17. Which one of the following is a true description of the Dow Jones Industrial Average?

A.
B.
C.
D.

Bodie - Chapter 02 #17
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.5 Interpret and explain basic share data.
Section: 2.3 Equity markets

18. Treasury notes are financial instruments issued by ________ to raise funds.

A.
B.
C.
D.

Bodie - Chapter 02 #18
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #19
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #20
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.2 List and describe the different types of bonds available.
Section: 2.2 The bond market

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

A.
B.
C.
D.

Bodie - Chapter 02 #21
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.7 Interpret and explain option data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #22
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.2 List and describe the different types of bonds available.
Section: 2.2 The bond market

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

A.
B.
C.
D.

Bodie - Chapter 02 #23
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.2 List and describe the different types of bonds available.
Section: 2.2 The bond market

24. ________ is not a money market instrument.

A.
B.
C.
D.

Bodie - Chapter 02 #24
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.2 List and describe the different types of bonds available.
Section: 2.2 The bond market

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

A.
B.
C.
D.

Bodie - Chapter 02 #25
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.5 Interpret and explain basic share data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #26
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.7 Interpret and explain option data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #27
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.2 List and describe the different types of bonds available.
Section: 2.2 The bond market

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

A.
B.
C.
D.

Bodie - Chapter 02 #28
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #29
Difficulty: Hard
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

30. The Dow Jones Industrial Average is ________.

A.
B.
C.
D.

Bodie - Chapter 02 #30
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.5 Interpret and explain basic share data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #31
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.2 List and describe the different types of bonds available.
Section: 2.2 The bond market

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

A.
B.
C.
D.

Bodie - Chapter 02 #32

Difficulty: Medium
Gradable: automatic
Learning Objective: 2.5 Interpret and explain basic share data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #33
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.5 Interpret and explain basic share data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #34
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.6 List and describe some of the various derivative instruments available.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #35
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.7 Interpret and explain option data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #36
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.7 Interpret and explain option data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #37
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.7 Interpret and explain option data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #38
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.2 List and describe the different types of bonds available.
Section: 2.2 The bond market

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

A.
B.
C.
D.

Bodie - Chapter 02 #39
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.5 Interpret and explain basic share data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #40
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.5 Interpret and explain basic share data.
Section: 2.3 Equity markets

41. Large well-known companies often issue their own short term unsecured debt notes directly to the public, rather than borrowing from banks, their notes are called ________.

A.
B.
C.
D.

Bodie - Chapter 02 #41
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #42
Difficulty: Medium

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

43. Eurodollars are ________.

A.
B.
C.
D.

Bodie - Chapter 02 #43
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.2 List and describe the different types of bonds available.
Section: 2.2 The bond market

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

A.
B.
C.
D.

Bodie - Chapter 02 #44
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

45. Treasury notes have initial maturities between ________ weeks.

A.
B.
C.
D.

Bodie - Chapter 02 #45
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #46

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

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

A.
B.
C.
D.

Bodie - Chapter 02 #47
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.7 Interpret and explain option data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #48
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.2 List and describe the different types of bonds available.
Section: 2.2 The bond market

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

A.
B.
C.
D.

Bodie - Chapter 02 #49
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.6 List and describe some of the various derivative instruments available.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #50
Difficulty: Hard
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #51
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #52
Difficulty: Easy
Gradable: automatic
Learning Objective: 2.1 List and describe the various types of money market instruments available.
Section: 2.1 The money market

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

A.
B.
C.
D.

Bodie - Chapter 02 #53
Difficulty: Hard
Gradable: automatic
Learning Objective: 2.5 Interpret and explain basic share data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

Bodie - Chapter 02 #54
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.5 Interpret and explain basic share data.
Section: 2.3 Equity markets

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

A.
B.
C.
D.

after tax yield = 0.09(1–0.28) = 0.0648

Bodie - Chapter 02 #55
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.2 List and describe the different types of bonds available.
Section: 2.2 The bond market

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

A.
B.
C.
D.

Yield = 0.032/(1-0.35) = 0.0492

Bodie - Chapter 02 #56
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.2 List and describe the different types of bonds available.
Section: 2.2 The bond market

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

A.
B.
C.
D.

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

Bodie - Chapter 02 #57
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.2 List and describe the different types of bonds available.
Section: 2.2 The bond market

58. A tax-exempt bond is priced to yield 6.25%. If you are in the 28% tax bracket this bond would provide you with an equivalent taxable yield of ________.

A.
B.
C.
D.

8.68% = 6.25%/(1 - 0.28)

Bodie - Chapter 02 #58
Difficulty: Medium
Gradable: automatic

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

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

A.
B.
C.
D.

$60 × 0.030/4 = $0.45

Bodie - Chapter 02 #59
Difficulty: Medium
Gradable: automatic
Learning Objective: 2.4 Explain two important characteristics of ordinary shares.
Section: 2.3 Equity markets

Chapter 02 - Testbank Summary