Chapter 02 - Testbank

Student: ____

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

   A. Treasury bond
   B. Commercial paper
   C. Preferred share
   D. Banker's acceptance

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

   A. daily
   B. weekly
   C. monthly
   D. quarterly

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

   A. 120
   B. 90
   C. 60
   D. 30

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 safe and marketable
   B. they are not liquid
   C. they are high risk
   D. they are low denomination

6. The most actively traded money market security is

   A. Treasury notes
   B. Bankers' Acceptances
   C. Certificates of Deposit
   D. Common shares

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

   A. Majority
   B. Cumulative
   C. Rights
   D. Proxy

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

   A. receiving interest payments every 90 days
   B. receiving dividend payments every 30 days
   C. converting the T-note at maturity into a higher valued government bond
   D. buying the note at a discount from the face value received at maturity

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

   A. France
   B. Norway
   C. Brazil
   D. Canada

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

    A. Dividends on preferred shares are tax-deductible to individual investors but not to corporate investors.
    B. Common dividends cannot be paid if preferred dividends are in arrears on cumulative preferred share.
    C. Preferred shareholders have voting power.
    D. Investors can sue managers for nonpayment of preferred dividends.

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

    A. Adjustable rate mortgage when interest rate increases.
    B. Fixed rate mortgage when interest rates falls.
    C. Fixed rate mortgage when interest rate rises.
    D. None of the answers given, as banker's interest will always be protected.

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

    A. a bank accepted bond
    B. a repurchase agreement
    C. a Treasury note
    D. a time deposit

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

    A. Liquidity
    B. Marketability
    C. Low risk
    D. Maturity greater than one year

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

    A. commits to delivering the underlying commodity at contract maturity
    B. commits to purchasing the underlying commodity at contract maturity
    C. has the right to deliver the underlying commodity at contract maturity
    D. has the right to purchase the underlying commodity at contract maturity

15. 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

16. The maximum maturity of certificate of deposits is

A. 185 days
B. 100 days
C. 95 days
D. 30 days

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

A. A value-weighted average of 30 large industrial shares
B. A price-weighted average of 30 large industrial shares
C. A price-weighted average of 100 large shares traded on the New York Stock Exchange
D. A value-weighted average of all shares traded on the New York Stock Exchange

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

A. commercial banks
B. the Australian Commonwealth Government
C. large corporations
D. state and city governments

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. I only
B. I and II only
C. I and III only
D. I, II and III

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

A. a callable bond
B. a debenture
C. a junk bond
D. a mortgage

21. 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. interest rate swap

22. Which one of the following 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.

23. 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. greater than the yield on taxable bonds
D. less than the yield on taxable bonds

24. ________ is not a money market instrument.

A. A certificate of deposit
B. A Treasury bill
C. A Treasury bond
D. Commercial paper

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

A. ASX 200
B. FTSE
C. GSE
D. TSE

26. 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. interest rate swap

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

A. convertible bond
B. call option
C. mortgage pass-through security
D. preferred share

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

A. the prime rate
B. the discount rate
C. the federal funds rate
D. LIBOR

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. Reverse repurchase agreement
B. Banker's acceptance
C. Commercial paper
D. Repurchase agreement

30. 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

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. inflation is lower than anticipated over the investment period
B. inflation is higher than anticipated over the investment period
C. the U.S. dollar increases in value against the euro
D. the spread between commercial paper and Treasury securities remains low

32. Preferred share 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 preferred dividend is a tax-deductible expense for the firm
D. in the event of bankruptcy preferred share has equal status with debt

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

A. An equally weighted index
B. A price weighted index
C. A value weighted index
D. Weights are not a factor in this situation

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

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

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. right, buy
B. right, sell
C. obligation, buy
D. obligation, sell

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. $40; $30
B. $30; $40
C. $35; $35
D. $40; $40

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. right, buy
B. right, sell
C. obligation, buy
D. obligation, sell

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

A. Corporate bonds
B. Junk bonds
C. Government bonds
D. None of the above

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

A. Japan
B. Singapore
C. Taiwan
D. Hong Kong

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

A. insolvent
B. redeemable
C. insufferable
D. delinquent

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. certificates of deposit
B. repurchase agreements
C. banker's acceptances
D. commercial paper

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

A. Certificate of deposit
B. Repurchase agreement
C. Banker's acceptance
D. Commercial paper

43. Eurodollars are ________.

A. dollar denominated deposits at any foreign bank or foreign branch of an American bank
B. dollar denominated bonds issued by firms outside their home market
C. currency issued by Euro Disney and traded in France
D. dollars that wind up in banks as a result of money laundering activities

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

A. Certificate of deposit
B. Treasury notes
C. Eurodollar deposits
D. Commercial paper

45. Treasury notes have initial maturities between ________ weeks.

A. 2 and 4
B. 5 and 10
C. 10 and 30
D. 1 and 30

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

A. Residual claimant
B. Unlimited liability
C. Voting rights
D. Limited life of the security

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

A. purchase a call option
B. purchase a put option
C. sell a futures contract
D. place a short sale order

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

A. Daily high price for the bond
B. Closing bond price
C. Yield to maturity
D. Dividend yield

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

A. Hedging
B. Speculating
C. Doing calculus problems
D. Market making

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. No change, as both yields will remain the same.
B. Increase, the spread usually increases in response to a crisis.
C. Decrease, the spread usually decreases in response to a crisis.
D. No change, as both yields will move in the same direction.

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

A. Bankers' acceptances
B. Treasury notes
C. Repurchase agreements
D. Eurobonds

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

A. Bankers' acceptances
B. Brokers' call
C. Cash rate
D. LIBOR

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. value weighted index
B. equal weighted index
C. price weighted index
D. bond price index

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. value weighted index
B. equal weighted index
C. price weighted index
D. bond price index

55. 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%

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. 3.20%
B. 3.68%
C. 4.92%
D. 9.00%

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. 6.40%
B. 5.44%
C. 7.36%
D. 6.25%

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. 4.50%
B. 7.25%
C. 8.68%
D. none of the answers given are correct

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. $0.55
B. $1.80
C. $0.45
D. $1.25

Chapter 02 - Testbank Key

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

A. Treasury bond
B. Commercial paper
C. Preferred share
D. Banker's acceptance

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. daily
B. weekly
C. monthly
D. quarterly

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. 120
B. 90
C. 60
D. 30

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. eurodollars
B. LIBOR
C. fed funds
D. banker's acceptance

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. they are safe and marketable
B. they are not liquid
C. they are high risk
D. they are low denomination

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. Treasury notes
B. Bankers' Acceptances
C. Certificates of Deposit
D. Common shares

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. Majority
B. Cumulative
C. Rights
D. Proxy

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. receiving interest payments every 90 days
B. receiving dividend payments every 30 days
C. converting the T-note at maturity into a higher valued government bond
D. buying the note at a discount from the face value received at maturity

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. France
B. Norway
C. Brazil
D. Canada

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. Dividends on preferred shares are tax-deductible to individual investors but not to corporate investors.
B. Common dividends cannot be paid if preferred dividends are in arrears on cumulative preferred share.
C. Preferred shareholders have voting power.
D. Investors can sue managers for nonpayment of preferred dividends.

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. Adjustable rate mortgage when interest rate increases.
B. Fixed rate mortgage when interest rates falls.
C. Fixed rate mortgage when interest rate rises.
D. None of the answers given, as banker's interest will always be protected.

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. a bank accepted bond
B. a repurchase agreement
C. a Treasury note
D. a time deposit

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. Liquidity
B. Marketability
C. Low risk
D. Maturity greater than one year

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. commits to delivering the underlying commodity at contract maturity
B. commits to purchasing the underlying commodity at contract maturity
C. has the right to deliver the underlying commodity at contract maturity
D. has the right to purchase the underlying commodity at contract maturity

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. the Federal Reserve
B. commercial banks
C. large well-known companies
D. the New York Stock Exchange

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. 185 days
B. 100 days
C. 95 days
D. 30 days

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. A value-weighted average of 30 large industrial shares
B. A price-weighted average of 30 large industrial shares
C. A price-weighted average of 100 large shares traded on the New York Stock Exchange
D. A value-weighted average of all shares traded on the New York Stock Exchange

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. commercial banks
B. the Australian Commonwealth Government
C. large corporations
D. state and city governments

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. I only
B. I and II only
C. I and III only
D. I, II and III

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. a callable bond
B. a debenture
C. a junk bond
D. a mortgage

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. call option
B. futures contract
C. put option
D. interest rate swap

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. 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.

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. usually less than 50% of the yield on taxable bonds
B. normally about 90% of the yield on taxable bonds
C. greater than the yield on taxable bonds
D. less than the yield on taxable bonds

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. A certificate of deposit
B. A Treasury bill
C. A Treasury bond
D. Commercial paper

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. ASX 200
B. FTSE
C. GSE
D. TSE

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. call option
B. futures contract
C. put option
D. interest rate swap

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. convertible bond
B. call option
C. mortgage pass-through security
D. preferred share

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. the prime rate
B. the discount rate
C. the federal funds rate
D. LIBOR

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. Reverse repurchase agreement
B. Banker's acceptance
C. Commercial paper
D. Repurchase agreement

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. a price weighted average
B. a value weight and average
C. an equally weighted average
D. an unweighted average

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. inflation is lower than anticipated over the investment period
B. inflation is higher than anticipated over the investment period
C. the U.S. dollar increases in value against the euro
D. the spread between commercial paper and Treasury securities remains low

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. 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 preferred dividend is a tax-deductible expense for the firm
D. in the event of bankruptcy preferred share has equal status with debt

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. An equally weighted index
B. A price weighted index
C. A value weighted index
D. Weights are not a factor in this situation

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. 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

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. right, buy
B. right, sell
C. obligation, buy
D. obligation, sell

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. $40; $30
B. $30; $40
C. $35; $35
D. $40; $40

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. right, buy
B. right, sell
C. obligation, buy
D. obligation, sell

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. Corporate bonds
B. Junk bonds
C. Government bonds
D. None of the above

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. Japan
B. Singapore
C. Taiwan
D. Hong Kong

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. insolvent
B. redeemable
C. insufferable
D. delinquent

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. certificates of deposit
B. repurchase agreements
C. banker's acceptances
D. commercial paper

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. Certificate of deposit
B. Repurchase agreement
C. Banker's acceptance
D. Commercial paper

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. dollar denominated deposits at any foreign bank or foreign branch of an American bank
B. dollar denominated bonds issued by firms outside their home market
C. currency issued by Euro Disney and traded in France
D. dollars that wind up in banks as a result of money laundering activities

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. Certificate of deposit
B. Treasury notes
C. Eurodollar deposits
D. Commercial paper

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. 2 and 4
B. 5 and 10
C. 10 and 30
D. 1 and 30

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. Residual claimant
B. Unlimited liability
C. Voting rights
D. Limited life of the security

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. purchase a call option
B. purchase a put option
C. sell a futures contract
D. place a short sale order

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. Daily high price for the bond
B. Closing bond price
C. Yield to maturity
D. Dividend yield

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. Hedging
B. Speculating
C. Doing calculus problems
D. Market making

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. No change, as both yields will remain the same.
B. Increase, the spread usually increases in response to a crisis.
C. Decrease, the spread usually decreases in response to a crisis.
D. No change, as both yields will move in the same direction.

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. Bankers' acceptances
B. Treasury notes
C. Repurchase agreements
D. Eurobonds

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. Bankers' acceptances
B. Brokers' call
C. Cash rate
D. LIBOR

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. value weighted index
B. equal weighted index
C. price weighted index
D. bond price index

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. value weighted index
B. equal weighted index
C. price weighted index
D. bond price index

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. 6.48%
B. 7.25%
C. 8.02%
D. 9.00%

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. 3.20%
B. 3.68%
C. 4.92%
D. 9.00%

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. 6.40%
B. 5.44%
C. 7.36%
D. 6.25%

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. 4.50%
B. 7.25%
C. 8.68%
D. none of the answers given are correct

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. $0.55
B. $1.80
C. $0.45
D. $1.25

$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

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