

## 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 dealer 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%

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

*Bodie - Chapter 02 #55*

*Difficulty: Medium*

*Gradable: automatic*

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

*Section: 2.2 The bond market*

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

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

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

*Bodie - Chapter 02 #56*

*Difficulty: Medium*

*Gradable: automatic*

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

*Section: 2.2 The bond market*



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

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

*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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