Essentials of Investments 10th edition Bodie Test Bank

SKU: 9780077835422-TEST-BANK

Chapter 02 Test Bank - Static

Student: _____

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

A. Treasury bill
B. commercial paper
C. preferred stock
D. bankers' acceptance

2. T-bills are issued with initial maturities of:

I. 4 weeks

II. 16 weeks

III. 26 weeks

IV. 32 weeks

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

3. When computing the bank discount yield, you would use ____ days in the year.

A. 260
B. 360
C. 365
D. 366

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

A. eurodollars
B. LIBOR
C. fed funds
D. bankers' acceptance

5. Money market securities are sometimes referred to as *cash equivalents* 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 marketable money market security is _____.

A. Treasury bills
B. bankers' acceptances
C. certificates of deposit
D. common stock

7. The minimum *tick size*, or spread between prices in the Treasury bond market, is

A. 1/8 of a point.
B. 1/16 of a point.
C. 1/32 of a point.
D. 1/128 of a point.

Essentials of Investments 10th edition Bodie Test Bank

8. An investor in a T-bill earns interest by _____.

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

9. _____ would *not* be included in the EAFE index.

A. Australia
B. Canada
C. France
D. Japan

10. _____ is considered to be an emerging market country.

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

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

A. Dividends on preferred stocks 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 stock.
C. Preferred stockholders have voting power.
D. Investors can sue managers for nonpayment of preferred dividends.

12. The bid price of a Treasury bill is _____.

A. the price at which the dealer in Treasury bills is willing to sell the bill
B. the price at which the dealer in Treasury bills is willing to buy the bill
C. greater than the ask price of the Treasury bill expressed in dollar terms
D. the price at which the investor can buy the Treasury bill

13. The German stock market is measured by which market index?

A. FTSE
B. Dow Jones 30
C. DAX
D. Nikkei

14. Deposits of commercial banks at the Federal Reserve are called _____.

A. bankers' acceptances
B. federal funds
C. repurchase agreements
D. time deposits

15. Which of the following is *not* a true statement regarding municipal bonds?

A. A municipal bond is a debt obligation issued by state or local governments.
B. A municipal bond is a debt obligation issued by the federal government.
C. The interest income from a municipal bond is exempt from federal income taxation.
D. The interest income from a municipal bond is exempt from state and local taxation in the issuing state.

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

A. liquidity
B. marketability
C. low risk
D. maturity greater than 1 year

Essentials of Investments 10th edition Bodie Test Bank

17. 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

18. Which of the following is *not* a nickname for an agency associated with the mortgage markets?

A. Fannie Mae
B. Freddie Mac
C. Sallie Mae
D. Ginnie Mae

19. Commercial paper is a short-term security issued by _____ to raise funds.

A. the Federal Reserve
B. the New York Stock Exchange
C. large well-known companies
D. all of these options

20. The maximum maturity on commercial paper is _____.

A. 270 days
B. 180 days
C. 90 days
D. 30 days

21. Which one of the following is a true statement regarding the Dow Jones Industrial Average?

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

22. Treasury bills are financial instruments issued by _____ to raise funds.

A. commercial banks
B. the federal government
C. large corporations
D. state and city governments

23. Which of the following are true statements about T-bills?

I. T-bills typically sell in denominations of $10,000.

II. Income earned on T-bills is exempt from all federal taxes.

III. Income earned on T-bills is exempt from state and local taxes.

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

24. A bond that has no collateral is called a _____.

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

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

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

26. A T-bill quote sheet has 90-day T-bill quotes with a 4.92 bid and a 4.86 ask. If the bill has a $10,000 face value, an investor could buy this bill for _____.

A. $10,000
B. $9,878.50
C. $9,877
D. $9,880.16

27. 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.

28. The yield on tax-exempt bonds is _____.

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

29. _____ is *not* a money market instrument.

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

30. An investor buys a T-bill at a bank discount quote of 4.80 with 150 days to maturity. The investor's bond equivalent yield on this investment is _____.

A. 4.8%
B. 4.97%
C. 5.47%
D. 5.74%

31. The U.K. stock index is the _____.

A. DAX
B. FTSE
C. GSE
D. TSE

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

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

33. Which one of the following provides the best example of securitization?

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

34. Which of the following indexes are market value-weighted?

I. The NYSE Composite

II. The S&P 500

III.The Wilshire 5000

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

35. 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

36. A firm that has large securities holdings and 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. bankers' acceptance
C. commercial paper
D. repurchase agreement

37. Currently, the Dow Jones Industrial Average is computed by _____.

A. adding the prices of 30 large "blue-chip" stocks and dividing by 30
B. calculating the total market value of the 30 firms in the index and dividing by 30
C. measuring the current total market value of the 30 stocks in the index relative to the total value on the previous day
D. adding the prices of 30 large "blue-chip" stocks and dividing by a divisor adjusted for stock splits and large stock dividends

38. An investor purchases one municipal bond and one corporate bond that pay rates of return of 5% and 6.4%, respectively. If the investor is in the 15% tax bracket, his after-tax rates of return on the municipal and corporate bonds would be, respectively, _____.

A. 5% and 6.4%
B. 5% and 5.44%
C. 4.25% and 6.4%
D. 5.75% and 5.44%

39. If a Treasury note has a bid price of $996.25, the quoted bid price in the *Wall Street Journal* would be _____.

A. 99:5/8
B. 99:6/10
C. 99.6250
D. none of the options

40. TIPS are _____.

A. Treasury bonds that pay no interest and are sold at a discount
B. U.K. bonds that protect investors from default risk
C. securities that trade on the Toronto stock index
D. Treasury bonds that protect investors from inflation

41. The price quotations of Treasury bonds in the *Wall Street Journal* show a bid price of 104.5313 and an ask price of 104.5489. If you sell a Treasury bond, you expect to receive _____.

A. $ 1,000.00
B. $ 1,045.00
C. $ 1,045.31
D. $ 1,045.48

42. The Dow Jones Industrial Average is _____.

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

43. Investors will earn higher rates of returns on TIPS than on 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

44. Preferred stock is like long-term debt in that _____.

A. it gives the holder voting power regarding the firm's management
B. it promises to pay to its holder a fixed stream of income each year
C. the preferred dividend is a tax-deductible expense for the firm
D. in the event of bankruptcy preferred stock has equal status with debt

45. 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. all of these options (Weights are not a factor in this situation.)

46. In calculating the Dow Jones Industrial Average, the adjustment for a stock split occurs _____.

A. automatically
B. by adjusting the divisor
C. by adjusting the numerator
D. by adjusting the market value weights

47. A bond issued by the state of Alabama 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. 4.5%
B. 7.25%
C. 8.68%
D. none of these options

48. 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

49. Ownership of a put option entitles the owner to the _____ to _____ a specific stock, on or before a specific date, at a specific price.

A. right; buy
B. right; sell
C. obligation; buy
D. obligation; sell

50. An investor in a 28% tax bracket is trying to decide whether to invest in a municipal bond or a corporate bond. She looks up municipal bond yields (r_m) but wishes to calculate the taxable equivalent yield *r*. The formula she should use is given by _____.

A. $r = r_m \times (1 - 28\%)$

B. $r = r_m / (1 - 72\%)$

C. $r = r_m \times (1 - 72\%)$

D. $r = r_m / (1 - 28\%)$

Essentials of Investments 10th edition Bodie Test Bank

51. 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

52. Ownership of a call option entitles the owner to the _____ to _____ a specific stock, on or before a specific date, at a specific price.

A. right; buy
B. right; sell
C. obligation; buy
D. obligation; sell

53. The _____ the ratio of municipal bond yields to corporate bond yields, the _____ the cutoff tax bracket at which more individuals will prefer to hold municipal debt.

A. higher; lower
B. lower; lower
C. higher; higher
D. The answer cannot be determined without more information.

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

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

55. The Standard & Poor's 500 is _____ weighted index.

A. an equally
B. a price-
C. a value-
D. a share-

56. 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. bankers' acceptances
D. commercial paper

57. Which of the following is most like a short-term collateralized loan?

A. certificate of deposit
B. repurchase agreement
C. bankers' acceptance
D. commercial paper

58. 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

59. Which of the following is used to back international sales of goods and services?

A. certificate of deposit
B. bankers' acceptance
C. eurodollar deposits
D. commercial paper

60. Treasury notes have initial maturities between _____ years.

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

61. Which of the following is *not* a characteristic of common stock ownership?

A. residual claimant
B. unlimited liability
C. voting rights
D. right to any dividend paid by the corporation.

62. If you thought prices of stock would be rising over the next few months, you might want to _____ on the stock.

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

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

A. coupon
B. closing bond price
C. yield to maturity
D. dividend yield

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

A. no change, as both yields will remain the same
B. increase, as the spread usually increases in response to a crisis
C. decrease, as the spread usually decreases in response to a crisis
D. no change, as both yields will move in the same direction

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

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

66. Three stocks have share prices of $12, $75, and $30 with total market values of $400 million, $350 million, and $150 million, respectively. If you were to construct a price-weighted index of the three stocks, what would be the index value?

A. 300
B. 39
C. 43
D. 30

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

A. bankers' acceptance
B. eurodollar
C. repurchase agreement
D. Treasury note

68. The rate of interest on short-term loans among financial institutions is _____.

A. bankers' acceptances
B. brokers' calls
C. federal funds
D. LIBOR

69. You decide to purchase an equal number of shares of stocks of firms to create a portfolio. If you wanted to construct an index to track your portfolio performance, your best match for your portfolio would be to construct _____.

A. a value-weighted index
B. an equally weighted index
C. a price-weighted index
D. a bond price index

70. In a _____ index, changes in the value of the stock with the greatest market value will move the index value the most, everything else equal.

A. value-weighted index
B. equally weighted index
C. price-weighted index
D. bond price index

71. A corporation in a 34% tax bracket invests in the preferred stock of another company and earns a 6% pretax rate of return. An individual investor in a 15% tax bracket invests in the same preferred stock and earns the same pretax return. The after-tax return to the corporation is _____, and the after-tax return to the individual investor is _____.

A. 3.96%; 5.1%
B. 5.39%; 5.1%
C. 6%; 6%
D. 3.96%; 6%

72. All but which one of the following indices is value weighted?

A. NASDAQ Composite
B. S&P 500
C. Wilshire 5000
D. DJIA

73. 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%

74. 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. 3.2%
B. 3.68%
C. 4.92%
D. 5%

75. An index computed from a simple average of returns is a/an _____.

A. equal weighted index
B. value weighted index
C. price weighted index
D. share weighted index

76. A tax free municipal bond provides a yield of 2.34%. What is the equivalent taxable yield on the bond given a 28% tax bracket?

A. 2.34%
B. 2.68%
C. 3.25%
D. 4.92%

77. The Hydro Index is a price weighted stock index based on the 5 largest boat manufacturers in the nation. The stock prices for the five stocks are $10, $20, $80, $50 and $40. The price of the last stock was just split 2 for 1 and the stock price was halved from $40 to $20. What is the new divisor for a price weighted index?

A. 5.00
B. 4.85
C. 4.50
D. 4.75

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

A. 960
B. 970
C. 975
D. 985

79. A benchmark market value index is comprised of three stocks. Yesterday the three stocks were priced at $12, $20, and $60. The number of outstanding shares for each is 600,000 shares, 500,000 shares, and 200,000 shares, respectively. If the stock prices changed to $16, $18, and $62 today respectively, what is the 1-day rate of return on the index?

A. 5.78%
B. 4.35%
C. 6.16%
D. 7.42%

80. 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 these options, as the banker's interest will always be protected.

81. The brokers' call rate represents

A. the rate the broker charges an investor on a margin account.
B. the rate the broker pays its bank on borrowed funds.
C. the return earned by the broker on a margin account.
D. the return earned by the investor on a margin account .

82. LIBOR is a key reference rate in the money markets. Many _____ of dollars of loans and derivative assets are tied to it.

A. thousands
B. millions
C. billions
D. trillions

83. Several large banks manipulated the reported rates on which key money market rate?

A. federal funds rate
B. LIBOR
C. bankers' acceptances
D. brokers' calls rate

84. Which of the following reforms were not included in 2014 regulations regarding money market funds?

A. Institutional funds will "float" the prices of their shares.
B. Funds can limit redemptions or impose a 2% fee if assets fall by more than 30%.
C. increased disclosure of assets' values and liquidity
D. All of the options were included.

85. What would be the profit or loss per share of stock to an investor who bought an October expiration Apple call option with an exercise price of $130 if Apple closed on the expiration date at $120? Assume the option premium was $3.00.

A. $0
B. $3.00 gain
C. $3.00 loss
D. $7.00 gain

Chapter 02 Test Bank - Static KEY

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

A. Treasury bill
B. commercial paper
C. preferred stock
D. bankers' acceptance

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

2. T-bills are issued with initial maturities of:

I. 4 weeks

II. 16 weeks

III. 26 weeks

IV. 32 weeks

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

3. When computing the bank discount yield, you would use ____ days in the year.

A. 260
B. 360
C. 365
D. 366

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

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

A. eurodollars
B. LIBOR
C. fed funds
D. bankers' acceptance

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

Essentials of Investments 10th edition Bodie Test Bank

5. Money market securities are sometimes referred to as *cash equivalents* because _____.

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

6. The most marketable money market security is _____.

A. Treasury bills
B. bankers' acceptances
C. certificates of deposit
D. common stock

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

7. The minimum *tick size*, or spread between prices in the Treasury bond market, is

A. 1/8 of a point.
B. 1/16 of a point.
C. 1/32 of a point.
D. 1/128 of a point.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

8. An investor in a T-bill earns interest by _____.

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

9. _____ would *not* be included in the EAFE index.

A. Australia
B. Canada
C. France
D. Japan

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 3 Hard
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

Essentials of Investments 10th edition Bodie Test Bank

10. _____ is considered to be an emerging market country.

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

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

A. Dividends on preferred stocks 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 stock.
C. Preferred stockholders have voting power.
D. Investors can sue managers for nonpayment of preferred dividends.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: Equity Securities

12. The bid price of a Treasury bill is _____.

A. the price at which the dealer in Treasury bills is willing to sell the bill
B. the price at which the dealer in Treasury bills is willing to buy the bill
C. greater than the ask price of the Treasury bill expressed in dollar terms
D. the price at which the investor can buy the Treasury bill

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

13. The German stock market is measured by which market index?

A. FTSE
B. Dow Jones 30
C. DAX
D. Nikkei

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

14. Deposits of commercial banks at the Federal Reserve are called _____.

A. bankers' acceptances
B. federal funds
C. repurchase agreements
D. time deposits

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

15. Which of the following is *not* a true statement regarding municipal bonds?

A. A municipal bond is a debt obligation issued by state or local governments.
B. A municipal bond is a debt obligation issued by the federal government.
C. The interest income from a municipal bond is exempt from federal income taxation.
D. The interest income from a municipal bond is exempt from state and local taxation in the issuing state.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

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

A. liquidity
B. marketability
C. low risk
D. maturity greater than 1 year

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

17. 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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.
Topic: Derivative Markets

18. Which of the following is *not* a nickname for an agency associated with the mortgage markets?

A. Fannie Mae
B. Freddie Mac
C. Sallie Mae
D. Ginnie Mae

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

19. Commercial paper is a short-term security issued by _____ to raise funds.

A. the Federal Reserve
B. the New York Stock Exchange
C. large well-known companies
D. all of these options

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

20. The maximum maturity on commercial paper is _____.

A. 270 days
B. 180 days
C. 90 days
D. 30 days

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

Essentials of Investments 10th edition Bodie Test Bank

21. Which one of the following is a true statement regarding the Dow Jones Industrial Average?

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

22. Treasury bills are financial instruments issued by _____ to raise funds.

A. commercial banks
B. the federal government
C. large corporations
D. state and city governments

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

23. Which of the following are true statements about T-bills?

I. T-bills typically sell in denominations of $10,000.

II. Income earned on T-bills is exempt from all federal taxes.

III. Income earned on T-bills is exempt from state and local taxes.

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

24. A bond that has no collateral is called a _____.

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

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

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.
Topic: Derivative Markets

Essentials of Investments 10th edition Bodie Test Bank

26. A T-bill quote sheet has 90-day T-bill quotes with a 4.92 bid and a 4.86 ask. If the bill has a $10,000 face value, an investor could buy this bill for _____.

A. $10,000
B. $9,878.50
C. $9,877
D. $9,880.16

AACSB: Analytical Thinking
Bloom's: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

27. 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.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

28. The yield on tax-exempt bonds is _____.

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

29. _____ is *not* a money market instrument.

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

30. An investor buys a T-bill at a bank discount quote of 4.80 with 150 days to maturity. The investor's bond equivalent yield on this investment is _____.

A. 4.8%
B. 4.97%
C. 5.47%
D. 5.74%

AACSB: Analytical Thinking
Bloom's: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

31. The U.K. stock index is the _____.

A. DAX
B. FTSE
C. GSE
D. TSE

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

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

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.
Topic: Derivative Markets

33. Which one of the following provides the best example of securitization?

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

34. Which of the following indexes are market value-weighted?

I. The NYSE Composite

II. The S&P 500

III.The Wilshire 5000

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

35. 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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

36. A firm that has large securities holdings and 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. bankers' acceptance
C. commercial paper
D. repurchase agreement

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

37. Currently, the Dow Jones Industrial Average is computed by _____.

A. adding the prices of 30 large "blue-chip" stocks and dividing by 30
B. calculating the total market value of the 30 firms in the index and dividing by 30
C. measuring the current total market value of the 30 stocks in the index relative to the total value on the previous day
D. adding the prices of 30 large "blue-chip" stocks and dividing by a divisor adjusted for stock splits and large stock dividends

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

38. An investor purchases one municipal bond and one corporate bond that pay rates of return of 5% and 6.4%, respectively. If the investor is in the 15% tax bracket, his after-tax rates of return on the municipal and corporate bonds would be, respectively, _____.

A. 5% and 6.4%
B. 5% and 5.44%
C. 4.25% and 6.4%
D. 5.75% and 5.44%

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

39. If a Treasury note has a bid price of $996.25, the quoted bid price in the *Wall Street Journal* would be _____.

A. 99:5/8
B. 99:6/10
C. 99.6250
D. none of the options

Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

40. TIPS are _____.

A. Treasury bonds that pay no interest and are sold at a discount
B. U.K. bonds that protect investors from default risk
C. securities that trade on the Toronto stock index
D. Treasury bonds that protect investors from inflation

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

41. The price quotations of Treasury bonds in the *Wall Street Journal* show a bid price of 104.5313 and an ask price of 104.5489. If you sell a Treasury bond, you expect to receive _____.

A. $ 1,000.00
B. $ 1,045.00
C. $ 1,045.31
D. $ 1,045.48

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

42. The Dow Jones Industrial Average is _____.

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

43. Investors will earn higher rates of returns on TIPS than on 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

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

44. Preferred stock is like long-term debt in that _____.

A. it gives the holder voting power regarding the firm's management
B. it promises to pay to its holder a fixed stream of income each year
C. the preferred dividend is a tax-deductible expense for the firm
D. in the event of bankruptcy preferred stock has equal status with debt

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Equity Securities

45. 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. all of these options (Weights are not a factor in this situation.)

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

46. In calculating the Dow Jones Industrial Average, the adjustment for a stock split occurs _____.

A. automatically
B. by adjusting the divisor
C. by adjusting the numerator
D. by adjusting the market value weights

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

47. A bond issued by the state of Alabama 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. 4.5%
B. 7.25%
C. 8.68%
D. none of these options

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

48. 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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.
Topic: Derivative Markets

49. Ownership of a put option entitles the owner to the _____ to _____ a specific stock, on or before a specific date, at a specific price.

A. right; buy
B. right; sell
C. obligation; buy
D. obligation; sell

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.
Topic: Derivative Markets

50. An investor in a 28% tax bracket is trying to decide whether to invest in a municipal bond or a corporate bond. She looks up municipal bond yields (r_m) but wishes to calculate the taxable equivalent yield *r*. The formula she should use is given by _____.

A. $r = r_m \times (1 - 28\%)$
B. $r = r_m / (1 - 72\%)$
C. $r = r_m \times (1 - 72\%)$
D. $r = r_m / (1 - 28\%)$

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 3 Hard
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

51. 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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.
Topic: Derivative Markets

52. Ownership of a call option entitles the owner to the _____ to _____ a specific stock, on or before a specific date, at a specific price.

A. right; buy
B. right; sell
C. obligation; buy
D. obligation; sell

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.
Topic: Derivative Markets

53. The _____ the ratio of municipal bond yields to corporate bond yields, the _____ the cutoff tax bracket at which more individuals will prefer to hold municipal debt.

A. higher; lower
B. lower; lower
C. higher; higher
D. The answer cannot be determined without more information.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 3 Hard
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

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

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

55. The Standard & Poor's 500 is _____ weighted index.

A. an equally
B. a price-
C. a value-
D. a share-

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

56. 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. bankers' acceptances
D. commercial paper

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

57. Which of the following is most like a short-term collateralized loan?

A. certificate of deposit
B. repurchase agreement
C. bankers' acceptance
D. commercial paper

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

58. 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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

59. Which of the following is used to back international sales of goods and services?

A. certificate of deposit
B. bankers' acceptance
C. eurodollar deposits
D. commercial paper

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

60. Treasury notes have initial maturities between _____ years.

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

61. Which of the following is *not* a characteristic of common stock ownership?

A. residual claimant
B. unlimited liability
C. voting rights
D. right to any dividend paid by the corporation.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: Equity Securities

62. If you thought prices of stock would be rising over the next few months, you might want to _____ on the stock.

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

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.
Topic: Derivative Markets

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

A. coupon
B. closing bond price
C. yield to maturity
D. dividend yield

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

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

A. no change, as both yields will remain the same
B. increase, as the spread usually increases in response to a crisis
C. decrease, as the spread usually decreases in response to a crisis
D. no change, as both yields will move in the same direction

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 3 Hard
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

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

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

AACSB: Analytical Thinking
Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: Equity Securities

66. Three stocks have share prices of $12, $75, and $30 with total market values of $400 million, $350 million, and $150 million, respectively. If you were to construct a price-weighted index of the three stocks, what would be the index value?

A. 300
B. 39
C. 43
D. 30

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

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

A. bankers' acceptance
B. eurodollar
C. repurchase agreement
D. Treasury note

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

68. The rate of interest on short-term loans among financial institutions is _____.

A. bankers' acceptances
B. brokers' calls
C. federal funds
D. LIBOR

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

69. You decide to purchase an equal number of shares of stocks of firms to create a portfolio. If you wanted to construct an index to track your portfolio performance, your best match for your portfolio would be to construct _____.

A. a value-weighted index
B. an equally weighted index
C. a price-weighted index
D. a bond price index

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 3 Hard
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

70. In a _____ index, changes in the value of the stock with the greatest market value will move the index value the most, everything else equal.

A. value-weighted index
B. equally weighted index
C. price-weighted index
D. bond price index

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

71. A corporation in a 34% tax bracket invests in the preferred stock of another company and earns a 6% pretax rate of return. An individual investor in a 15% tax bracket invests in the same preferred stock and earns the same pretax return. The after-tax return to the corporation is _____, and the after-tax return to the individual investor is _____.

A. 3.96%; 5.1%
B. 5.39%; 5.1%
C. 6%; 6%
D. 3.96%; 6%

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 3 Hard
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

72. All but which one of the following indices is value weighted?

A. NASDAQ Composite
B. S&P 500
C. Wilshire 5000
D. DJIA

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

73. 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%

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

74. 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. 3.2%
B. 3.68%
C. 4.92%
D. 5%

AACSB: Analytical Thinking
Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

75. An index computed from a simple average of returns is a/an _____.

A. equal weighted index
B. value weighted index
C. price weighted index
D. share weighted index

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

76. A tax free municipal bond provides a yield of 2.34%. What is the equivalent taxable yield on the bond given a 28% tax bracket?

A. 2.34%
B. 2.68%
C. 3.25%
D. 4.92%

AACSB: Analytical Thinking
Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Bond Market

77. The Hydro Index is a price weighted stock index based on the 5 largest boat manufacturers in the nation. The stock prices for the five stocks are $10, $20, $80, $50 and $40. The price of the last stock was just split 2 for 1 and the stock price was halved from $40 to $20. What is the new divisor for a price weighted index?

A. 5.00
B. 4.85
C. 4.50
D. 4.75

AACSB: Analytical Thinking
Bloom's: Apply
Difficulty: 3 Hard
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

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

A. 960
B. 970
C. 975
D. 985

AACSB: Analytical Thinking
Bloom's: Apply
Difficulty: 3 Hard
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

79. A benchmark market value index is comprised of three stocks. Yesterday the three stocks were priced at $12, $20, and $60. The number of outstanding shares for each is 600,000 shares, 500,000 shares, and 200,000 shares, respectively. If the stock prices changed to $16, $18, and $62 today respectively, what is the 1-day rate of return on the index?

A. 5.78%
B. 4.35%
C. 6.16%
D. 7.42%

AACSB: Analytical Thinking
Bloom's: Apply
Difficulty: 3 Hard
Learning Objective: 02-02 Describe the construction of stock market indexes.
Topic: Stock and Bond Market Indexes

80. 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 these options, as the banker's interest will always be protected.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Bloom's: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

81. The brokers' call rate represents

A. the rate the broker charges an investor on a margin account.
B. the rate the broker pays its bank on borrowed funds.
C. the return earned by the broker on a margin account.
D. the return earned by the investor on a margin account .

AACSB: Analytical Thinking
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

82. LIBOR is a key reference rate in the money markets. Many _____ of dollars of loans and derivative assets are tied to it.

A. thousands
B. millions
C. billions
D. trillions

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

83. Several large banks manipulated the reported rates on which key money market rate?

A. federal funds rate
B. LIBOR
C. bankers' acceptances
D. brokers' calls rate

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

84. Which of the following reforms were not included in 2014 regulations regarding money market funds?

A. Institutional funds will "float" the prices of their shares.
B. Funds can limit redemptions or impose a 2% fee if assets fall by more than 30%.
C. increased disclosure of assets' values and liquidity
D. All of the options were included.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: The Money Market

85. What would be the profit or loss per share of stock to an investor who bought an October expiration Apple call option with an exercise price of $130 if Apple closed on the expiration date at $120? Assume the option premium was $3.00.

A. $0
B. $3.00 gain
C. $3.00 loss
D. $7.00 gain

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Bloom's: Apply
Difficulty: 2 Medium
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.
Topic: Derivative Markets

Chapter 02 Test Bank - Static Summary

Category	*# of Questions*
AACSB: Reflective Thinking	7
AACSB: Analytical Thinking	77
Accessibility: Keyboard Navigation	75
Bloom's: Apply	16
Bloom's: Remember	60
Bloom's: Understand	9
Difficulty: 1 Easy	39
Difficulty: 2 Medium	35
Difficulty: 3 Hard	11
Learning Objective: 02-01 Distinguish among the major assets that trade in money markets and in capital markets.	55
Learning Objective: 02-02 Describe the construction of stock market indexes.	22
Learning Objective: 02-03 Calculate the profit or loss on investments in options and futures contracts.	8
Topic: Derivative Markets	9
Topic: Equity Securities	4
Topic: Stock and Bond Market Indexes	21
Topic: The Bond Market	20
Topic: The Money Market	31

Essentials of Investments 10th edition Bodie Test Bank